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Politics this week

Feb 14th 2008
From The Economist print edition

Barack Obama extended his lead over Hillary Clinton in the race for the **Democratic** presidential nomination by winning several states, including Virginia and Washington, by wide margins. Mrs Clinton's campaign manager and deputy campaign-manager both resigned. The senator from New York is now looking to the contests in Texas and Ohio on March 4th to make her last stand. See article

John McCain tightened his grip on the **Republican** nomination with victories in Virginia, Maryland and Washington, DC. Earlier, Mike Huckabee gave Mr McCain a scare by winning Kansas and Louisiana and coming a very close second in Washington state, proving that the Arizona senator has some way to go in endearing himself to conservatives in his party. See article

The White House said it would seek the death penalty against six alleged plotters of the **September 11th attacks**, including the man who claims to be the plot's mastermind, Khalid Sheikh Mohammed. The six will be brought before a military commission, probably before George Bush steps down from the presidency.

What goes around

One of the world's most lethal and elusive terrorists, Imad Mughniya, a member of the **Lebanese** party-cum-militia, Hizbullah, was killed by a car bomb in Syria's capital, Damascus; it was unclear by whom. He was thought responsible, over a period of three decades, for a host of mass-killings and suicide-bombings, especially against Israeli targets. See article

A grandson of Ayatollah Ruhollah Khomeini, the founding father of **Iran's** Islamic revolution, was reinstated, after an initial disqualification, among the candidates in Iran's parliamentary election scheduled for March 14th. One-third of the 6,000 other Iranians who tried to stand remain banned from competing by the Council of Guardians.

In a bid to end the country's bloody post-election crisis, representatives of **Kenya's** government and opposition held talks in a remote game lodge under the eye of a former UN secretary-general, Kofi Annan. A government minister denied that the teams had agreed to a government of national unity.

Reuters

A European Union peacekeeping force resumed its deployment in **Chad** after a halt caused by fighting between the government and rebels, who have been forced out of the capital, Ndjamena. Reinforcements of the French-led force are to be flown into the eastern town of Abéché under a UN mandate to protect more than 500,000 refugees and civilians who have fled violence spilling over from Sudan's embattled Darfur region.

Hooray for Hollywood

Steven Spielberg resigned as an artistic adviser to the Summer Olympics in Beijing over **China's** policy on **Darfur**. The film director said his conscience would not let him continue “business as usual” unless China changed its position on Sudan, its ally, which has been accused of human-rights abuses in the region. See article

José Ramos-Horta, president of **Timor-Leste**, was flown to hospital in Darwin, Australia, after being shot in a gun battle at his home in Dili. Xanana Gusmão, the prime minister, who was also attacked but not hurt, described the incident as an attempted coup and declared a state of emergency. The leader of the assailants, who appear to have been planning to kidnap the president, was Alfredo Reinado, a renegade army officer. He was killed in the shooting. See article

The ruling junta in **Myanmar** announced plans to hold a constitutional referendum in May, followed by elections in 2010. Presented as a step on its "road map" to democracy, the announcement was dismissed by the junta's critics as a rejection of any compromise with the political opposition. See article

Malaysia's prime minister, Abdullah Badawi, dissolved parliament, a year before its term expires, to pave the way for a snap election in March. See article

Campaigning for the general election in **Pakistan** to be held on February 18th continued to be scarred by violence. At least 36 people died in bomb attacks in two rallies in North-West Frontier Province. See article

A waste of energy

Venezuela's president, Hugo Chávez, threatened—not for the first time—to cut off his country's oil exports to the United States after Exxon Mobil, an American oil giant, secured court orders in three countries preventing Petróleos de Venezuela, the state oil firm, from selling assets worth $12 billion. This followed Exxon's refusal to accept new contract terms for its Venezuelan operations. See article

France's president, Nicolas Sarkozy, offered to allow **Brazil** the technology to build French attack submarines, helicopters and the Rafale fighter plane. He made the proposal during talks with his Brazilian counterpart, Luiz Inácio Lula da Silva, held at the border between Brazil and French Guiana.

Reuters

Illustrating their point

Several **Danish newspapers** reprinted a cartoon of the Prophet Muhammad that sparked riots in the Muslim world two years ago. Their decision to demonstrate support for freedom of speech followed the arrest in Denmark of three men suspected of plotting to murder the man who drew the original cartoon.

Turkey's parliament voted to ease a ban on wearing the Muslim headscarf in universities. Thousands of secularists have already demonstrated against the proposal. See article

AP

Russia and **Ukraine** settled a gas dispute moments before Gazprom, Russia's state-controlled energy giant, planned to switch off supplies. The Russians also threatened to target missiles at Ukraine if the Ukrainians joined NATO and accepted deployment of American missiles.

A business tycoon from **Georgia**, Badri Patarkatsishvili, died of a sudden heart attack in Britain. British police said they were treating the death as suspicious. Mr Patarkatsishvili was a leading opponent of Mikheil Saakashvili, who was re-elected as Georgia's president last month. He had also fallen out with Russia's president, Vladimir Putin. See article

The popularity rating of **Nicolas Sarkozy** fell below 40% in some opinion polls. Mr Sarkozy's standing suffered another blow when he was forced by local leaders of his party to withdraw support from his protégé (and spokesman), David Martinon, who had hoped to be elected as mayor of Neuilly, a posh Parisian suburb that Mr Sarkozy once ran.

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Business this week

Feb 14th 2008
From The Economist print edition

George Bush signed an **economic stimulus package** that will supply $168 billion—$152 billion of it this spring. The measure forms part of a government endeavour to stave off a recession in America. It ensures that rebates of up to $1,200 will be posted to households and also provides businesses with new tax breaks. Earlier, Hank Paulson, the treasury secretary, announced another initiative to help struggling **homeowners** by placing a 30-day freeze on certain kinds of foreclosures. RealtyTrac, an online property firm, said that foreclosures in America's largest urban areas rose by 78% last year, to 1.8m. See article

AIG raised the tally for its losses from the subprime market last October and November to $5 billion. The insurer had estimated that the loss would be up to $1.5 billion, but its auditor has since found a “material weakness” in how AIG valued its exposure.

Some mighty deep pockets

Warren Buffett disclosed that he had offered to reinsure the municipal-bond portfolios of three troubled **bond insurers** to the tune of $800 billion. Bond insurers are desperate to retain their top-notch credit ratings, which cities depend on when they borrow. However, Mr Buffett's suggestion received a cool reception from the insurers themselves, partly because they would be left holding the riskiest bond-insurance contracts. See article

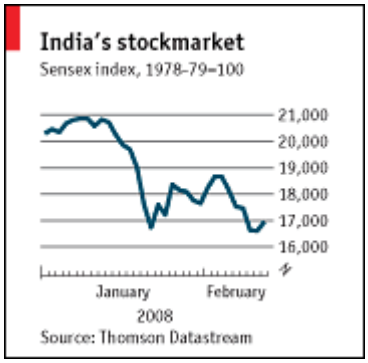
Credit Suisse reported its annual earnings and bucked the trend of most big financial companies by scaling back its losses from the subprime market. The Swiss bank's results stood in stark contrast to **UBS**, its rival, which confirmed its first yearly loss since 1998. See article

IKB, a stricken German bank, received a third bail-out. This time it came from the German government, which said the fallout from IKB's collapse would be “incalculable”.

The **Dow Jones Industrial Average** saw the first changes to its composition since 2004. Bank of America and Chevron will join the stockmarket index on February 19th, replacing Altria and Honeywell. The news rekindled the argument that the DJIA is a poor stockmarket barometer, because it is an average of only 30 share prices that ignores the companies' market value.

Bombay blues

Reliance Power's share price slumped by 17% on its first day of trading. The company launched its share issue last month, attracting millions of small investors and raising $3 billion to make it India's largest-ever public offering. Since then, the turbulence in world markets has shaken confidence within India, leading to the cancellation of two large IPOs. The country's benchmark **Sensex index**, which rose by 47% last year, has lost almost a fifth of its value in the past few weeks.



Japan's **Nikkei** stockmarket surged by 4.3% on February 14th—its biggest one-day jump for six years—following better than expected economic growth figures.

General Motors made a net loss of $722m in the fourth quarter as the slowdown in its North American and European businesses continued to offset gains from emerging markets. The carmaker's loss for 2007 stood at $38.7 billion, mostly because of a third-quarter write-down of deferred tax credits. In an effort to reduce its labour costs further, GM said it would offer severance packages to 74,000 more workers.

Lights! Camera! Pencils!

Hollywood's writers ended their strike after the writers' guild reached an agreement with big television and film studios over payments for content broadcast on the internet. The three-month dispute affected the production of many TV shows, which lost advertisers and viewers, and thousands of jobs went in the entertainment industry. Studio executives breathed a sigh of relief that the strike was over. They can now look forward to negotiations with actors over their contracts, which expire in June. See article

The board of **Yahoo!** rejected **Microsoft's** takeover bid. The software company is now expected either to raise its offer or to appeal directly to Yahoo! shareholders about the merits of its deal. Meanwhile, rumours abounded that other companies, including News Corp, might join the fray.

Wheat prices soared after America, the biggest exporter of the grain, reported that its stockpile had fallen to the lowest level since 1948. Prices for the crop were already high, following a dip in worldwide production caused by drought in several countries.

Fidgety fingers were in evidence in boardrooms and bars across North America following a temporary loss of the **BlackBerry** e-mail service. Caused by a systems upgrade, it was the second big crash in ten months. Addicts of the device had to sweat it out for three whole hours before normal service was resumed.

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KAL's cartoon

Feb 14th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

AIR FORCE ONE
HELLO AFRICA!
HE IS POPULAR HERE FOR HIS POLICIES ON HEALTH CARE AND FOREIGN AID
SO POPULAR THAT 70% of AMERICANS HOPE HE'LL STAY HERE...

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Barack Obama

But could he deliver?

Feb 14th 2008
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It is time for America to evaluate Obama the potential president, not Obama the phenomenon

EPA

THIS has been an extraordinary week for the man who could become America's first black president. Barack Obama has now won all eight of the primaries and caucuses held since Super Tuesday on February 5th, which ended, more or less, in a dead heat with Hillary Clinton. He has won by much larger margins than most people expected, trouncing his rival not just in heavily black states, such as Louisiana, but in ones that are almost completely white, such as Maine. On February 12th he took all three prizes in the "Potomac primary"—Washington, DC, Maryland and, by a socking 29-point margin, Virginia.

Mr Obama now has more pledged delegates than his rival—and he is likely to remain the front-runner for at least another three weeks (see article). Revealingly, Mrs Clinton made her Virginian concession speech from Texas—a state which votes alongside Ohio on March 4th and is already being billed as her last stand. Mr Obama is raising money at the rate of $1m a day, twice as fast as she is; indeed, she has been forced to lend her campaign $5m of her own cash and fire the two people who run her campaign (although her husband has a big say).

Whatever happens, Mr Obama is already that rare thing—a political phenomenon. It is not just that he has managed to survive the Clintons' crude onslaught with grace. He has persuaded huge numbers of people around the world to reconsider politics in an optimistic way. To many Americans, a black man who eschews both racial politics and the conservative-liberal divide is a chance to heal the country's two deepest divisions. To many foreigners, he represents an idealistic version of America—the hope of a more benevolent superpower. Although Mr Obama's slogan "Yes We Can" has been turned into a pop video, the theme of his campaign echoes the Clintons' old tune—"Don't stop thinking about tomorrow".

Optimism is a powerful emotion, but as that song warned, "tomorrow will soon be here." That is why the real questioning of Mr Obama should begin now. With the brief exception of those four heady days after the Iowa caucuses, he has never been a front-runner; now he will be more fully scrutinised. The immediate focus will be on the horse race: can he win? But the bigger issue, which has so far occupied too little attention, is this: what would a President Obama, as opposed to Phenomenon Obama, really mean for America and the world?

Yes, you can; but not immediately

Begin with the horse race. Mrs Clinton is in a bad way—and deservedly so. The Clintons have fought a

leaden and nasty campaign; at present, the prospect of a “Billary presidency” (even before you take into account the dynastic Bush-Clinton-Bush-Clinton aspect) is hardly enthralling. But Mrs Clinton is tough and smart, and now her rival will be under the media microscope. In debates she trumps Mr Obama on mastery of detail—and the race could well be a long, grinding one, perhaps decided in the end by the 796 “super delegates” from the Democratic Party's establishment. These people have tended to be loyal to the Clintons—though many might defect if polls still showed Mr Obama doing better against John McCain.

Mr McCain, whose lock on the Republican nomination looks stronger than ever following his own triple victory in the Potomac primary, is another part of tomorrow Mr Obama's euphoric supporters might think about. The Republicans are a mess, and the elderly Arizonan senator has plainly failed to stir up his party's supporters in the same way as either of the main Democrats. But Mr McCain is a brave man, with huge experience of international affairs and a much longer record of reaching out to his opponents in politics. Why should independent voters, who have often backed Mr McCain in the past, turn to the less proven man?

Of magnets and magic dust

That question is partly answered by Obama the phenomenon. His immediate effect on international relations could be dramatic: a black president, partly brought up in a Muslim country, would transform America's image. And his youthful optimism could work at home too. After the bitterness of the Bush years, America needs a dose of unity: Mr Obama has a rare ability to deliver it. And the power of charisma should not be underrated, especially in the context of the American presidency which is, constitutionally, quite a weak office. The best presidents are like magnets below a piece of paper, invisibly aligning iron filings into a new pattern of their making. Anyone can get experts to produce policy papers. The trick is to forge consensus to get those policies enacted.

But what policies exactly? Mr Obama's voting record in the Senate is one of the most left-wing of any Democrat. Even if he never voted for the Iraq war, his policy for dealing with that country now seems to amount to little more than pulling out quickly, convening a peace conference, inviting the Iranians and the Syrians along and hoping for the best. On the economy, his plans are more thought out, but he often tells people only that they deserve more money and more opportunities. If one lesson from the wasted Bush years is that needless division is bad, another is that incompetence is perhaps even worse. A man who has never run any public body of any note is a risk, even if his campaign has been a model of discipline.

And the Obama phenomenon would not always be helpful, because it would raise expectations to undue heights. Budgets do not magically cut themselves, even if both parties are in awe of the president; the Middle East will not heal, just because a president's second name is Hussein. Choices will have to be made—and foes created even when there is no intention to do so. Indeed, something like that has already happened in his campaign. The post-racial candidate has ended up relying heavily on black votes (and in some places even highlighting the divide between Latinos and blacks).

None of this is to take away from Mr Obama's achievement—or to imply that he could not rise to the challenges of the job in hand. But there is a sense in which he has hitherto had to jump over a lower bar than his main rivals have. For America's sake (and the world's), that bar should now be raised—or all kinds of brutal disappointment could follow.

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The world economy

In search of an insurance policy

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From The Economist print edition

Preventing a global downturn is too big a job to be left just to American policymakers

IT IS not hard to worry about the world economy. America is either in, or perilously close to, recession, and other rich economies are weakening as the credit crunch tightens. In its new forecast, the International Monetary Fund expects global growth to slow from 4.9% last year to 4.1%: rich countries will manage only 1.8%. But that could prove optimistic. Since this slowdown came from a financial bust, the outlook is particularly uncertain. Nobody knows what financial calamities lurk under the surface or by how much credit will shrink. But one thing is clear. By adopting very different stances to the threat, policymakers are not helping to assuage the uncertainty.

In America politicians and central bankers are focusing on policy stimulus. The Federal Reserve has cut short-term interest rates by 1.25 percentage points in recent weeks, to 3%. Financial markets expect another half-point cut at (or before) the Fed's next meeting on March 18th. This week George Bush signed into law a package of tax rebates and temporary investment incentives worth $152 billion, or just over 1% of GDP.

One reason for this frenetic activity is undoubtedly politics. The prospect of elections in November explains why a fiscal-stimulus plan was agreed upon in record time. But there are two better reasons. There is, simply, the short-term need to respond to the downturn: employment is falling, consumer spending flagging and credit conditions tightening. But there is another rationale: both the Fed and the Treasury believe that by giving a stimulus now, they will minimise the odds of a nasty financial crisis and deep recession. This is their insurance policy.

The fund blasts its horn

That logic is now being echoed in another—unlikely—corner of Washington, DC. The International Monetary Fund, long a fierce advocate of budget discipline, has applauded America's actions and is urging other countries to draw up their own fiscal plans in case the global outlook darkens. In addition to America, countries that make up a quarter of global GDP, the fund reckons, have the scope to cut taxes or boost spending. To reduce the odds of calamity, they should start contingency planning now (see article).

Few outside America, however, accept this logic or share the urgency. Britain and Canada have cut interest rates in recent months, but by much less than the Fed. Canada has cut taxes recently, but is loth to do more. The European Central Bank has stood pat on interest rates, and has roundly criticised the

idea of fiscal stimulus. In emerging economies, too, the call for budget loosening seems to be falling on deaf ears, although high commodity prices and better economic management mean that countries such as China, Russia and even Mexico have plenty of room to loosen their budgets.

This scepticism is partly justified by the economic fundamentals. With domestic demand booming, many big emerging economies are, rightly, more worried about overheating and inflation than they are about a dire downturn. The latest evidence suggests China's domestic demand is accelerating (see article). Slower exports may be just what is needed to bring its growth back to a more sustainable pace. Although Europe's economies are more vulnerable than the *Schadenfreude* about America found in Frankfurt or Brussels would indicate (see article), demand—at least so far—has weakened much less than in America, and the inflationary risks are higher. The world economy can and should slow from its recent torrid pace. Global growth of 4% is hardly recessionary.

History adds to the sceptics' case. The record of Keynesian-style fiscal stimulus is chequered. Too often politicians have failed to counter a downturn and added to the public debt instead. Furthermore, policymakers' responsibility is to their own citizens: it makes no sense for countries to overheat their economies to “make up” for America's weakness.

All hands on the tiller

But the worry here is not weakness, but the risk of a nasty global economic downturn where emerging countries as well as rich ones slow far below their potential. People outside America are aware that things could get nasty. At a recent gathering of G7 officials in Tokyo, Peer Steinbrück, Germany's finance minister, gave warning that the total losses from the subprime mess could reach $400 billion. If house prices fall much further, everyone knows the losses will be greater still, and the odds of a financial calamity—and a deep recession—will rise. But for all the international hand-wringing about this “fat-tail” risk, nobody is doing much about it. The main insurance policy is America's stimulus.

That is unwise. Lower interest rates are a blunt tool for warding off financial-market crises. If the source of calamity lies with tumbling house prices or weaknesses in particular financial institutions, such as monoline insurers, then targeted remedies are important. Market solutions, such as Warren Buffett's recent offer to reinsure municipal bonds, may prove enough (see article). But America's housing market may yet justify dusting off Depression-era institutions, such as the Home Owners' Loan Corporation, which bought and refinanced distressed mortgages. In Europe regulators could do more to force banks to own up to their losses.

More worryingly, if the world leaves the Fed to provide risk insurance for everyone, America's interest rates will almost certainly be too loose for too long—just as they were in 2001-04. Excessively low American rates would raise the odds of new asset bubbles and impede the rebalancing of the global economy. The world would be better off if risk management were not down to one country.

The IMF's call for contingency planning is surely right. True, history suggests that monetary loosening and targeted help to deal with systemic risks in the markets have often worked better than fiscal stimulus. But many countries have unusual scope to use their governments' coffers. If it comes to it, they should do so. Countries from China to Canada have the wherewithal to counter a sharp slowdown themselves. They should not rely on America to do it for them.

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Technology and the public sector

Government offline

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Why business succeeds on the web and government mostly fails

Illustration by Allan Sanders

IN ONE respect at least, it has been a huge success. Selling new technology to governments has brought private contractors a bonanza of many tens of billions of dollars in the past ten years. Although putting information on the web (call it “i-government”) has worked, our special report shows that “e-government”—using the interactivity and speed of the internet to provide public services—has so far mostly meant high costs and poor returns.

Why is government unable to reap the same benefits as business, which uses technology to lower costs, please customers and raise profits? The three main reasons are lack of competitive pressure, a tendency to reinvent the wheel and a focus on technology rather than organisation.

Governments have few direct rivals. Amazon.com must outdo other online booksellers to win readers' money. Google must beat Yahoo!. Unless every inch of such companies' websites offers stellar clarity and convenience, customers go elsewhere. But if your country's tax-collection online offering is slow, clunky or just plain dull, then tough. When Britain's Inland Revenue website crashed on January 31st—the busiest day of its year—the authorities grudgingly gave taxpayers one day's grace before imposing penalties. They did not offer the chance to pay tax in Sweden instead.

Globalisation provides some substitute. In India, where things too often are still done in triplicate, Andhra Pradesh's pioneering e-seva system lets people pay their utility bills, transfer money, buy railway tickets and so on. Now other parts of India are trying to catch up. In Dubai, public agencies compete to impress the country's go-ahead sheikh, who praises the best and humiliates the laggards.

But shame and beauty contests are still weak forces in the public sector. Failure in bureaucracy means not bankruptcy but writing self-justifying memos, and at worst a transfer elsewhere. Bureaucrats plead that just a bit more time and money will fix the clunky monsters they have created. That kind of thinking has led to the botched computerisation in Britain's National Health Service, where billions of pounds and millions of precious hours are spent on a system that at best will be substandard and at worst dangerously leaky with patients' private medical data.

That reflects another problem. In the private sector, tight budgets for information technology spark innovation. But bureaucrats are suckers for overpriced, overpromised and overengineered systems. The contrast is all the sharper given some of the successes shown by those using open-source software: the District of Columbia, for example, has junked its servers and proprietary software in favour of the standard package of applications offered and hosted by Google.

Boot-up the bureaucrats

One ground for hope is that bureaucracies can piggyback on the private sector's experience. Rather than invent new online security systems for the public sector, why not use those already developed by banks, as in Scandinavia?

Interestingly, the examples of good e-government in our special report have a common factor: a tough-minded leader at the top, willing to push change through against the protests of corrupt or incompetent vested interests. It would be nice to think that democracy would do that, concentrating voters' preferences for good government and creating an electoral ratchet in favour of modern, efficient public services. It hasn't happened yet. The paradox is that if you want really efficient e-government, you are more likely to get it in semi-feudal Dubai than in most of the world's biggest democracies.

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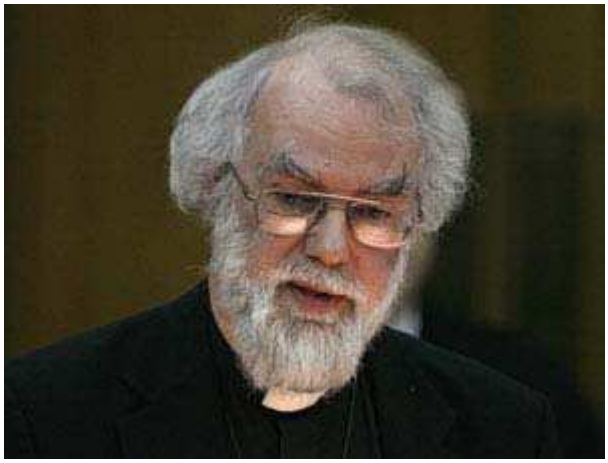
Church and state

Sever them

Feb 14th 2008
From The Economist print edition

Religion should have a smaller official role in Britain, not a greater one

Reuters



ROWAN WILLIAMS, the Archbishop of Canterbury, primate of the Church of England and of the 80m-strong Anglican Communion worldwide, is a mild-mannered man. Yet it is no surprise that he provoked outrage when he suggested on February 7th that the adoption of elements of Islamic *sharia* law in Britain was “unavoidable” if social cohesion was to be fostered (see article). The archbishop revived a debate that has exercised great minds for millennia: where to draw the dividing line between church and state. And he got it wrong.

Most European countries that are Christian by inheritance have seen a decline in traditional religious observance. Many have opened their doors to devout Muslim minorities. The result is often a confrontation between Christianity and other faiths, and between religious values and secular ones.

In Britain's case, three extra complications exist. First, more than anywhere except perhaps America, the law is an integral part of Britain's sense of self. The Magna Carta is a founding myth. When defining “Britishness”, the rule of law and fair play are among the first things Britons mention to pollsters. So suggestions that entire groups should be able to contract out of bits of the law do not go down well. The archbishop did not say quite that, of course. He is right to point out that plenty of legal matters are already decided outside the established court system, some of them in *sharia* tribunals. But he called the principle of one law for everybody “a bit of a danger”.

A second strain in relations between church and state in Britain is that the government relies increasingly on religious and other “third-sector” groups to help it deliver social services. This is not necessarily a bad thing, but it has highlighted conflicts between religious aims and public policy. Some state-financed “faith schools”, for example, are wrongly allowed to take religion into account when selecting their students (and headmasters). State-subsidised Catholic adoption agencies have refused to place children with gay adoptive parents, though that sort of discrimination is now illegal. The trend in these and other cases is to reduce the room for large-scale religious exceptionalism.

The third complication is that England has an established church whose authority has been intertwined with the state's for five centuries. The powers of the Church of England have been trimmed and privileges have been granted to other religions. Yet although a mere 1.7m people attend its services regularly, its special status endures. The queen is its head; Parliament approves its prayer book; and only last year did the prime minister relinquish the right to select its bishops, 25 of whom sit in the House of Lords.

Faced with this anomaly, the archbishop proposes to expand the privileges of all religions. It would be better instead to curtail the entitlements of his one. It makes no sense in a pluralistic society to give one church special status. Nor does it make sense, in a largely secular country, to give special status to all faiths. The point of democracies is that the public arena is open to all groups—religious, humanist or football fans. The quality of the argument, not the quality of the access to power, is what matters. And citizens, not theocrats, choose.

Cut it free

Disestablishing the Church of England does not mean that it has no public role to play. America's founders said there should be no established religion, but religion shapes public debate to a degree that many in Europe find incomprehensible. Let religion compete in the marketplace for ideas, not seek shelter behind special privileges. One law for all, with its enlightened insistence on tolerance and free speech, is not a “bit of a danger”. It is what underwrites the ability of all religions to go about their business unhindered.

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Aviation

The need to shrink

Feb 14th 2008
From The Economist print edition

America's big airlines are desperate to merge. Let them

Reuters

Get article background

IT HAS been a long haul. In the past 18 months America's biggest airlines have shown signs of life after a near-death experience in the aftermath of the attacks on September 11th 2001. At one time or another, four out of the "big six" network carriers succumbed to Chapter 11 bankruptcy protection and as late as 2006 nearly half the seating capacity in America belonged to airlines in Chapter 11. But since then booming demand for travel, along with the painful cost and capacity reductions of the past few years, have given America's airlines surging profits and the fastest-improving yields in the industry. Now, led by merger talks between Delta and Northwest, the third- and fifth-largest airlines, it suddenly looks as if an often predicted, but never realised, wave of consolidation is about to hit American aviation—but only if competition regulators allow it.

In the past the trust-busters at the Department of Justice (DoJ) have taken a hostile view of big airline mergers, fearing that they would cut competition, raise prices and harm services. In a highly unionised industry, politicians have also been alarmed about job cuts, while local communities have worried about the loss of routes or regional hubs. In 1998, when Northwest bought a controlling stake in Continental, the DoJ sued them both. Three years later it opposed a possible tie-up between United and US Airways. Even though airlines are in better financial health than they have been for years, the DoJ should not make the same mistake again.

One reason is that the recovery in the airlines' fortunes is fleeting and superficial. As the economy tips into recession, yields and load factors are rapidly worsening. Balance sheets, still stretched, are unlikely to improve (see article). Yet, with jet fuel costing 50% more than it did a year ago and representing at least 30% of their operating costs, the big American carriers desperately need to replace their old and thirsty airliners.

Nor should fears about reduced competition weigh too heavily with regulators. For one thing, these days the big American carriers barely compete head-to-head. In a Delta/Northwest combination, or a later deal between United and Continental, less than 5% of their total seats compete with each other. Nor would either deal create much new pricing power. Even before any cuts in overlapping services, neither would have a market share of more than 24%. In domestic North American markets, low-cost operators, which now account for 30% of seat capacity, would continue to exert downward price pressure. And the "open skies" treaty with the European Union that comes into force at the end of next month should intensify intercontinental competition.

Necessary, if not sufficient

The overriding reason for the DoJ to bless these deals is that consolidation is the only way left for the airlines to address problems that continue to destabilise the industry. Before they can prosper, the big six must first cut regional and transcontinental capacity, while they focus on potentially more profitable long-haul routes, which low-cost carriers do not fly.

An American air-transport industry hobbled by the bankruptcy of some of its biggest companies hurts more than itself—especially because it also shelters behind a deeply inefficient ban on foreign ownership. The current system damages consumers everywhere by perpetuating the idea that aviation is not a normal business. Letting America's big six become the bigger three would start to put that right.

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On America's GDP, hunger, Nepal, military tankers, Northern Ireland, Rudy Giuliani, Belgian mathematicians

Feb 14th 2008
From The Economist print edition

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Statistical proof

SIR – Your article on measuring America's economic growth ("Odd numbers", February 2nd) argues that the "advance" estimate of GDP reveals too little about the American economy, stating that it is "more of a bathing suit than a bikini". I would like to clarify the purpose and accuracy of early GDP estimates.

The advance estimate of GDP provides a quick reading on the economy. According to the Federal Reserve and OECD, this early snapshot is among the timeliest and most accurate estimates of GDP in the world. The Bureau of Economic Analysis uses a well-established process that incorporates more complete and accurate data as they become available. We regularly publish revisions and the record shows our early estimates may be amended up or down. However, they typically tell the same story of high or low growth, an accelerating or decelerating economy and sector-specific growth contributions.

All economic statistics face a trade-off between timeliness and accuracy. America's GDP figures strike a responsible balance.

Steven Landefeld
Director
Bureau of Economic Analysis
Washington, DC

Hunger pains

SIR – With regards to your article on the impact of malnutrition on children's health ("The starvelings", January 26th), it is right to conclude that "given the scale of the crisis, the case for aid organisations redirecting money and attention to the problem of hunger looks compelling." However, aid organisations that focus only on their response to the disease impacts of malnutrition neglect the attractive economic returns to be had from educating people to eat well throughout their whole lives.

Despite the factual evidence on these returns, many development agencies and governments still take the view that hunger and malnutrition will disappear primarily in response to poverty reduction. They are failing to invest in national large-scale direct action that is justified on medical, economic and humanitarian grounds and that itself is fundamental to reducing poverty.

Lorraine Williams
Chair
International Alliance Against Hunger
Rome

Travel advice

SIR – In reference to your article ("From treks to sex", January 26th) we would like to clarify that the "Wild Stag Weekends" advertised on the Nepal Tourism Board's website are part of a destination-branding exercise that was launched two years ago. We sorted tourists into different categories and targeted short-haul markets with weekend breaks for a variety of holidays tailored for families, young people, women, pilgrims, etc. You can find these in our brochure.

Our intention when branding "Wild Stag Weekends" was not to promote sex tourism in Kathmandu but to

encourage holidaymakers to enjoy traditional Nepalese dancing, where they could mingle freely with the dancers. Apparently this has been misunderstood by your newspaper.

Sarad Pradhan
Media consultant
Nepal Tourism Board
Kathmandu

Flight control

SIR – With reference to your article on the battle to supply America's air force with a new tanker ("This time it's war", February 2nd), I think that Boeing has the proof of performance and the more efficient tanker for the force. All Boeing aircraft provide visual evidence of their behaviour through feedback in the yoke and the throttles. So those piloting a KC-767 know immediately what the autopilot is doing thanks to in-motion, recognisable visual cues, which is not the case for Boeing's rival, the Northrop Grumman/EADSKC-30.

During combat operations, pilot control is critical. The KC-30 has limits placed upon manoeuvres that are strictly enforced by flight-control computers, despite the fact that some pilots will need to dodge anti-aircraft artillery or missile shots. Boeing's is the best tanker for pilots in any combat situation.

Brigadier-General (Ret'd) James Hart
Bascom, Florida

A soldier's tale

SIR – Regarding your article on lingering sectarian sympathies in Northern Ireland ("Grieving and politics", February 2nd). On Christmas Day 1974, a 21-year-old lieutenant in the British army led four fellow uniformed but unarmed Catholic riflemen to mass at a church in west Belfast. On leaving, the four were roughly manhandled by some enraged young men who had gathered outside. On seeing this, all the women who had taken part in the service spontaneously closed around the four British soldiers and led them 500 yards back to their base so they would not be shot or stoned.

In December 2007, having driven through a housing estate where lampposts were still adorned with foot-high IRA letters, this same officer went back to the church with his wife to see if he could attend mass. The parish priest advised him that it was as dangerous now as it was then. Whether the officer's wish was brought out in the priest's homily is not known. Healing the wounds incurred during Northern Ireland's "Troubles" will take more effort than simple politics.

Lieutenant-Colonel (Ret'd) Philip Schofield
Warminster, Wiltshire

The ferret and the mayor

SIR – I am no fan of Rudy Giuliani, but he was entirely justified in berating a "harmless ferret-owner" ("Goodbye, Rudy Tuesday", February 2nd). Mr Giuliani's famous abrasive temperament came to the boil in this case only after the ferret-owner had phoned a radio show for a second time to pester the then mayor about a New York by-law banning pet ferrets.

Moreover, Mr Giuliani did not accuse the ferret-owner of being deranged "simply because he owned ferrets", but more specifically because the man was so obsessed with the creatures as to have founded an activist group dedicated to their "rights". I, for one, can hardly blame Mr Giuliani for refusing to dignify this issue with a polite answer.

Akil Alleyne
Princeton, New Jersey

SIR – You made an excellent point by asking: "why should working stiffs in the heartland subsidise others' beachfront dreams?" along the coasts. Now if we could only get those in the heartland to realise that the rest of us are sick and tired of paying for their agricultural subsidies.

Billy Hankins

Auburn, Alabama

Obscure thoughts

SIR – Concerning your confusion over the exact nationality of a “renowned” Belgian mathematician (Letters, January 19th). The trouble is that when you are famous, no one knows you're Belgian. And when you are a mathematician, no one knows you're famous.

Edward Whitehead
London

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China's infrastructure splurge

Rushing on by road, rail and air

Feb 14th 2008 | BEIJING
From The Economist print edition

China's race to build roads, railways and airports speeds ahead. Democracy, says an official, would sacrifice efficiency

"IT'S like approaching the Forbidden City, it's absolutely incredible." The adjective is one that Mouzhan Majidi, chief executive of Foster + Partners, liberally attaches to Beijing's new airport terminal, designed by his British firm. The world's largest, designed in the gently sinuous form of a Chinese dragon, it was planned and built in four years by an army of 50,000 workers. "The columns on the outside are red and you see them marching for miles and miles," says Mr Majidi.

A little hyperbole is understandable. The terminal is 3km (1.8 miles) long. The floor space is 17% bigger than all the terminals at London's Heathrow combined (including about-to-open Terminal Five). Chinese officials like the Forbidden City analogy. Just as the towering vermilion walls and golden roofs of the imperial palace inspire visitors with awe, China wants its golden-roofed terminal to impress those arriving for the Olympic games in August. Part of a $3.8 billion expansion, which included the opening of a third runway in October, it is due to open on February 29th, weeks ahead of schedule.

The new terminal is not merely window-dressing for foreigners. Beijing badly needs to expand its handling capacity. In 2002 the airport ranked 26th in passenger numbers worldwide. Now it is the ninth busiest. China's rapid economic growth and equally rapid integration into the global economic system is putting huge strains on its infrastructure. This has led to a spate of spending on transport. Between 2001

and the end of 2005 more was spent on roads, railways and other fixed assets than was spent in the previous 50 years. According to the state media, investment will see double-digit growth every year for the rest of the decade. Between 2006 and 2010, $200 billion is expected to be invested in railways alone, four times more than in the previous five years.

Superlatives abound. The world's longest sea-crossing bridge is due to open in June: a 36km six-lane highway across Hangzhou Bay (about the same length as the undersea portion of the Channel Tunnel linking Britain and France). This will halve travel time between two of China's busiest ports, Ningbo and Shanghai, to about two hours. Shanghai itself is home to the current world-record holder for such a structure, the 32km Donghai bridge. This was opened less than three years ago to link the city with Yangshan port, now being built on two flattened islands. Yangshan is intended to be one of the world's biggest deep-water facilities when completed at some point after 2010.

From August the 115km journey from Beijing to Tianjin, its nearest port, will be reduced to half an hour with the inauguration of a bullet-train link, China's fastest intercity rail service. There are big plans for bullet trains. Work began in January on a 1,300km line between Beijing and Shanghai that, when completed in five years' time, will reduce rail time between the two cities from ten hours to five—and thus be a competitive alternative to flying.

At $30 billion, the Beijing-Shanghai high-speed line is the most expensive project in China's railway history. But with cash to spare the government, which is reportedly shouldering nearly 80% of the cost (with a consortium of insurance companies providing much of the rest), is pushing ahead after years of debate over what technology to use and how much to spend on it. By comparison China's construction of a conventional line (but the world's highest railway) from Golmud to the Tibetan capital, Lhasa, which was completed in 2006 amid much self-congratulation over its technological accomplishment, cost only $4 billion (or so officials said: infrastructure price tags are subject to little scrutiny in China and overruns are rarely reported publicly).

More prosaic but cumulatively no less remarkable projects abound. Fifteen years ago intercity travel was often a choice between slow, crowded trains or a perilous journey by car or bus on narrow rural roads (flying was for the privileged; until 1993 buying a plane ticket required a letter of authorisation from an employer). But since the 1990s China has built an expressway network criss-crossing the country that is second only to America's interstate highway system in length (see article). By the end of 2007, some 53,600km of toll expressways had been built. The pace of construction will now be slowing a bit, but the aim is to have 70,000km of expressways by 2020. The Ministry of Communications (which is responsible for roads) boasts that China's expressway builders achieved in 17 years what the West took 40 to accomplish.

Oh for the open road

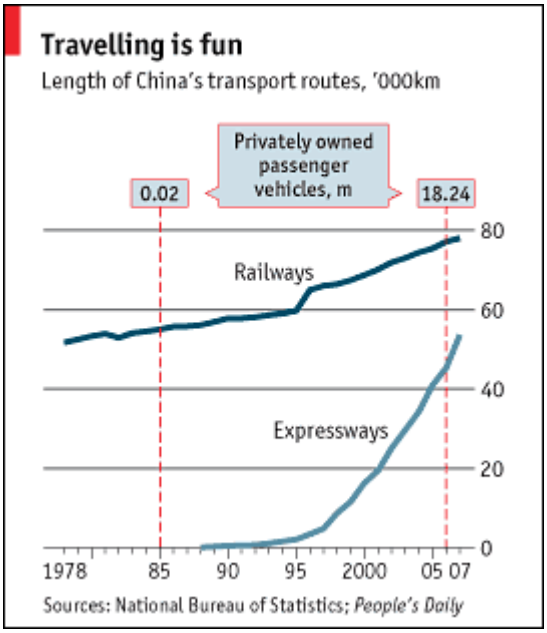
The expressway network has helped divert some of the freight traffic from the overburdened railway system. It has also—to the delight of China's burgeoning car industry but to the horror of environmentalists—helped to promote a sharp increase in private car ownership. The Asian Development Bank (ADB), which financed part of a 660km expressway linking Beijing with Shenyang in the north-east, found that the new toll road was little used after its completion in 2000. Now, says an ADB official, traffic flow (and therefore revenue) far exceeds initial predictions thanks to the growth of industries near the route and the increasing use of private cars for long-distance travel.

It is not just expressways that are getting attention. In 2005 China's leadership launched a programme to build what it called a “new socialist countryside”. This was an effort to assuage discontent in the countryside over the widening gap between rural and urban incomes and public services. The programme includes the planned construction of 300,000km of new rural roads between 2006 and 2010, an increase of nearly 50%.

Investment in railways has been far slower to gather pace. In southern China the worst snowstorms in decades paralysed much of the network in late January and early February. But the rail connections between north and south were already inadequate. Much of the south's coal supply is sent by rail from northern mines to the coast and then loaded onto ships. The World Bank says that China's railways carry 25% of the world's railway traffic on just 6% of its track length.

But change is coming. In the past couple of years investment has grown considerably. This year's target is $42 billion,

compared with a total of $72 billion in the preceding five years. World Bank officials call it the biggest expansion of railway capacity undertaken by any country since the 19th century. China had 78,000km of track at the end of last year. The original plan, published in 2004, was to increase this to 100,000km by 2020. Last October this was revised to 120,000km (and officials now say the target will be met by 2015). Even sticking to the 2020 target, this will mean laying 60% more track in the next dozen years than was built since the start of the economic reform programme 30 years ago. Huang Min, the Ministry of Railways' chief economist, says that by 2020 the railway system's freight-handling capacity should be greater than demand. At present, he says, it can handle only 40%.



Mr Huang reckons that railway expansion will bring down logistics costs, which he says amount to 18% of GDP in China compared with 10% in America. It will also help reduce pollution, he says, since fewer polluting lorries will be needed.

Aviation facilities will expand rapidly too. The increase in air passenger traffic has been dramatic: from 7m passengers in 1985 to over 185m in 2007. To deal with this rise, the government announced last month that it planned to add another 97 airports by 2020 to the 142 China had at the end of 2006. The number with an annual handling capacity of over 30m passengers will grow from three to 13.

There will also be a huge expansion of seaport capacity. The government predicts container throughput will increase by 85% between 2010 and 2020.

In all this activity it greatly helps to have a secretive planning bureaucracy and a government that brooks little dissent. In Britain, as Mr Majidi points out, it took as long to conduct a public inquiry into the proposed construction of Heathrow's Terminal Five as it took to build Beijing's new airport terminal from scratch.

There was no consultation with the public on the terminal. Nor was there any public debate about the construction of Beijing's third runway, notwithstanding the noise pollution already suffered by thousands of nearby residents. Beijing is now planning a second airport (even with Mr Majidi's terminal, the current airport is expected to exceed its designed capacity of 60m passengers this year, seven years before schedule). The location is being considered in secret. Xu Li, an official at the Ministry of Communications' transport research institute, agrees that China's infrastructure expansion is not as restrained by rules as it is in America. Once a plan is made, it is executed. “Democracy”, she says, “sacrifices efficiency.”

An often heavy-handed approach to land appropriation also helps. For Beijing's airport expansion, 15 villages were flattened and their more than 10,000 residents resettled nearby. But several of the former farmers told your correspondent that they were still barred from the unemployment benefits and other welfare privileges of city dwellers even though their farmland had been grabbed from them. One elderly man said that officials had threatened them with violence if they refused to leave their villages.

No tree-huggers permitted

Another factor is the hazy definition of who owns rural land (see article). Local officials tend to regard it as the government's and readily seize it—often for little compensation. In a recent study of China's transport, the World Bank says that roads are sometimes built expressly for the purpose of converting countryside into revenue-generating urban land. This causes a rapid outward expansion of cities, which combined with a lack of adequate public transport increases dependence on private cars. Beijing's polluted air and congested streets, to which 1,000 cars are added daily, are evidence of the problem.

Some of China's grand plans for the coming years may encounter a bit more resistance. In urban areas a property-owning middle class that hardly existed a decade ago is now growing rapidly. Some of its members are becoming increasingly vocal in their demands for more open decision-making, particularly when it comes to projects that might affect property values.

In China's biggest-ever urban protest against a transport-related project, thousands of Shanghai

residents gathered outside the city government's headquarters in January to demand the cancellation of plans to extend a Maglev (magnetic levitation) train line through the city's main urban area. The existing Maglev line was opened with much fanfare in 2003 as the first commercial service of its kind in the world. It provides a 30km ride at astonishing speed, peaking at 420kph, from the city's Pudong airport to a rather inconvenient spot on the city's outskirts. The government wants to link it with the city's other airport, Hongqiao. But many residents along the route say they are fearful of noise and radiation from the trains.

Many also question whether the Maglev will ever be much more than an expensive joy-ride that tourists will take once, just for the thrill of it. Shanghai has had a tendency in recent years to spend big money on projects of questionable value. The billions of dollars spent on Yangshan port and its cross-sea bridge might well have been better invested in expanding existing, and far more convenient, deep-water facilities in nearby Ningbo. The opening of the Hangzhou Bay bridge this year will make Ningbo's port all the more accessible to Shanghai. But cities in China have a poor record of co-operating, particularly when they belong, as these two do, to different provincial administrations.

Olympic swank

A show-off tendency among Chinese urban planners (as well as a dire lack of suburban rail networks) has helped to fuel a rapid expansion of costly underground railways. In some cases, says the World Bank, this is diverting resources away from urgent needs in the bus systems. Two decades ago only two cities, Beijing and Tianjin, had subways (and only three lines between them). Now 15 cities are building them at a total cost of tens of billions of dollars. Beijing and Shanghai are leading the way, spurred on by their desire to impress the world at the Olympic games and, in Shanghai's case, the World Expo which it will host in 2010. Beijing's official Olympics website displays a story saying that the city will have the biggest underground network in the world by 2015.

Complaints still abound about the way things work. Highways—both expressways and other intercity roads—are studded with traffic-slowing toll booths. China reportedly has 70% of the world's tolled roads and its tolls are the highest in the world (using exchange rates adjusted according to currencies' purchasing power). To cut costs, lorries routinely overload. This helps to make the roads among the most dangerous in the world (89,000 deaths in 2006 by official reckoning; the actual number may be much higher). And it pushes up the cost of maintaining them.

Reuters

Not everyone is pleased

The construction of expressways has been speeded up by making the provinces shoulder the costs. This they readily do, using toll revenues to repay construction loans provided by state-owned banks (the banks happily roll over debts that are not repaid on time). But this decentralisation makes it difficult for the central government to order an end to tolls or impose limits on them. A member of a district legislature in Beijing, Li Shuyuan, has been fighting a high-profile campaign for an end to tolls on one of the city's expressways which has long since repaid its loans. In 2002 she and her supporters won a rare victory by getting the city government to persuade the expressway operator (which the city owns) to reverse a toll increase. But both the government and operator refuse, she says, to budge further.

The railways' problem is that they are still highly centralised and the central government is unwilling to shoulder the whole cost of its massive expansion programme. The Ministry of Railways is also now turning to provincial governments as well as to companies (including private ones) and the stock markets for funds. The ministry's Huang Min says that railways in the booming east of the country could be run “according to market principles”. Investors, he says, will be attracted by the huge pent-up demand and “appropriate” increases in freight tariffs and passenger fares. Sceptics wonder whether the hidebound ministry will give market forces the leeway it says it will. And big fare increases would not go down well with passengers whose complaints about overcrowded, uncomfortable and corruptly managed train services are legion. But talk of reform is getting louder.

Strong political will may have helped what one World Bank adviser calls China's “mind-boggling” pace of rail and road construction. But even the Communist Party's resolve may not suffice for what would be the

most jaw-dropping project of all. A plan published by the Ministry of Communications in 2004 mentions, off-handedly, an expressway from Beijing to Taipei (target completion date: 2030). How the road would traverse the 150km Taiwan Strait is not mentioned. Nor does the document suggest how to tackle the even bigger problem of reaching agreement with Taiwan. But government maps of the completed expressway network show it. It would be unwise to rule it out.

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America's interstate highways

America's splurge

Feb 14th 2008
From The Economist print edition

Was this the model?

WHEN Captain Dwight D. Eisenhower first crossed America by car it took him 62 days. That was in 1919. Thirty-seven years later, President Eisenhower signed the Federal Aid Highway Act that brought into being one of the modern wonders of the world: America's interstate system. It is, in some ways, a model for China's current building splash.

Originally, the Americans hoped to build 67,000km (42,000 miles) of new roads in 12 years for $25 billion, then the most costly and ambitious infrastructure project ever. In the event, there was a little cost overrun. When the last section of I-105 was completed in Los Angeles in 1993, the system had taken 37 years at a cost (in 2006 dollars) of $425 billion.

But it was probably worth it. In an article in the *Review of Economics and Statistics* in 1994, Ishaq Nadiri and Theofanis Mamuneas looked at the impact of the highway system. In all but three of the 35 industries they studied, costs fell sharply—by 24 cents for each $1 invested in the highways—thanks to easier and cheaper transport. As a result, the authors reckoned, the highway system had a big impact on productivity. During the late 1950s, they said, interstate-highway spending was responsible for 31% of the annual increase of American productivity (at a time when the economy was growing at 6% a year). Its contribution to productivity growth obviously slackened over time, but in the 1960s was still about 25%, before falling to 7% in the 1980s as the system neared completion.

Of course, the interstates have their critics, then and now. By making it easier to get around, they contribute to America's urban sprawl. And their benefits seem patchy. One study found there were few so-called “productivity spillovers”, though nationwide highways should have encouraged these.

Still, economics was never the sole consideration. The interstate system got the go-ahead at the height of the cold war partly because roads are easier to repair after attack than railways. Eisenhower had been impressed by the resilience of Germany's autobahn system when he was supreme allied commander in Europe in the second world war. Perhaps China's leaders have been similarly impressed by America's interstate highways.

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The Democratic race

His to lose

Feb 14th 2008 | WASHINGTON, DC
From The Economist print edition

Reuters

Barack Obama is now the clear front-runner for the Democratic nomination

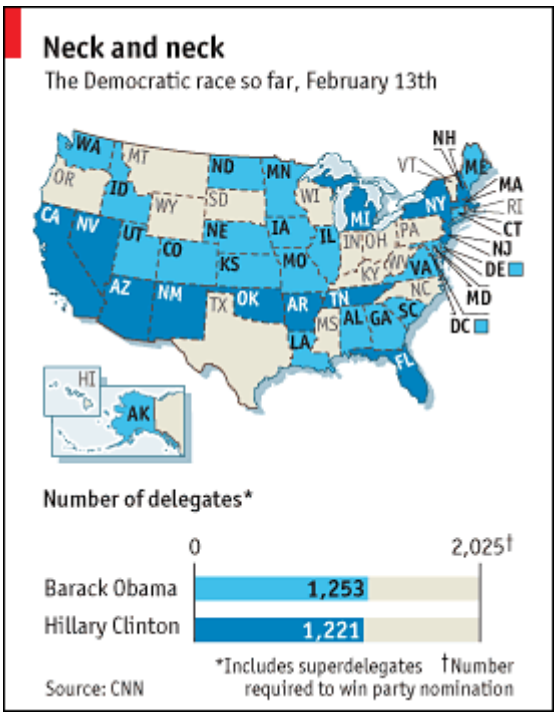
ON SATURDAY February 9th an overflowing crowd of Virginians got a chance to see the Democratic presidential candidates giving duelling speeches at the Jefferson-Jackson dinner in Richmond. More interesting than anything the candidates said, however, was the detritus afterwards. The crowds stripped the place clean of Obama signs, tearing every last one off the walls. Hillary signs were abandoned on chairs and trampled under foot.

Abandoned and trampled upon: that has been the story of Mrs Clinton's week. Since her successes on Super Tuesday, Barack Obama has won eight primaries and caucuses by wide—sometimes astonishing—margins. He won the Washington state caucus by 37 points. In Garfield County 100% of voters plumped for him. He won Maine by 19 points, Louisiana by 21 and Nebraska by 36.

The so-called Potomac primary completed his winning streak: he won Virginia by 29 points, Maryland by 23 points, and the District of Columbia by the minor matter of 51 points. He has now won 22 of the 35 races, beating Mrs Clinton in the last eight. In the delegate count estimated by CNN he leads by around 120 if you count only pledged delegates and over 40 if you include “superdelegates” (bigwigs with *ex officio* vote at the convention). He is ahead of Mrs Clinton for the first time in national polls.

The Clinton machine has done its best to minimise Mr Obama's victories. He can only win in caucus states, the argument goes; or only in small states; or among young voters; or in states with large black populations. Mr Obama has crushed all these claims. Maine and Washington are white states with older than average voters. Virginia and Maryland both hold primaries. Virginia is exactly the sort of big Southern state that the Democrats would dearly love to win in November (it voted for George Bush in 2000 and 2004).

Mr Obama has not only solidified his hold over his core constituents—blacks, the young, independents and educated white liberals. He has driven a truck into Mrs Clinton's coalition. In Virginia he won 52% of the white vote to Mrs Clinton's 47%, 54% of the (admittedly small) Latino vote to Mrs Clinton's 46%, 55% of people 65 and over to Mrs Clinton's 45%. He won every income group handily.



Mrs Clinton's decision to campaign in Texas rather than Wisconsin after her defeats shows how defensive she has become. Wisconsin (which holds its primary on February 19th) is full of the sort of white working-class voters who ought to be solid Clinton supporters—and who handed the state to her husband twice in the 1990s.

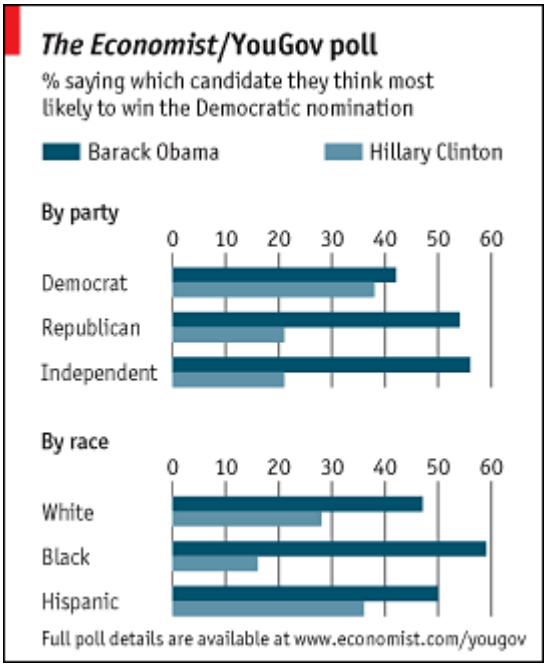
The Billary campaign is in turmoil. Over the weekend Mrs Clinton fired her campaign manager, Patti Solis Doyle, and replaced her with Maggie Williams, her former chief of staff. On Tuesday night her deputy campaign manager, Mike Henry, also resigned. This housecleaning was a bid to shore up support among panicky donors and superdelegates. But it also reflects a troubled organisation. Mrs Clinton's campaign has been riven by faction-fights between the “white boys” who are close to her husband and “the Hillary girls” who are close to her. It has also been hobbled by the reluctance of her advisers to bring the boss bad news. Mrs Solis Doyle's departure was reportedly precipitated by her failure to tell Mrs Clinton that her campaign was running out of money. Mrs Clinton, it seems, had to lend the campaign $5m of her own cash.

This turmoil is significant for more than the obvious reason that it is dangerous to switch key staff in the middle of a campaign. It suggests that Mrs Clinton underestimated the challenge posed by Mr Obama. She expected everything to be wrapped up by Super Tuesday, and is now putting together her campaign on the fly. It also undermines her claim to be a CEO-type figure who will be ready to run the country on day one. Mr Obama has run a steadier campaign. He has consistently out-organised and out-planned his rival.

Can the Clinton machine recover? Mrs Clinton has three things on her side. The first is her “firewall”—the states of Texas, Ohio and Pennsylvania. At least one in three of Democratic voters in Texas will be Latino, a group that has favoured Mrs Clinton in the past. Mrs Clinton is ahead in the polls in Ohio, a classic blue-collar state, by almost 20 points. These two vote on March 4th. Much of Pennsylvania, which votes on April 22nd, is also Clinton-friendly, and the popular governor, Ed Rendell, is working hard on her behalf. Between them, the three states choose 492 delegates.

The second is time. Mr Obama's message of “change” and “hope” is becoming a little tiresome. As he becomes the front-runner, media scrutiny is bound to intensify. And Mrs Clinton will take every opportunity, not least in two forthcoming debates, to attack him on substance, particularly about national security and the economy. Is Mr Obama tough enough to stand up to John McCain on security (security-minded voters tend to favour Mrs Clinton by a wide margin)? Is he experienced enough to save the economy from free-fall? Her quip on Tuesday night—that Mr Obama is “all hat and no cattle”—will provide the subtext of everything she says.

Her third advantage is the peculiar arithmetic of the delegate race. Even if Mr Obama wins every contest from now on by a five-point margin he will not gain the magic number of pledged delegates needed to secure the nomination. The Clintons are lobbying the superdelegates furiously. They are even prepared to push hard to seat the “ghost delegates” from Florida and Michigan in the convention. These are delegates elected in those states in primaries held in defiance of party rules (and hence not recognised by the party). Mr Obama's name did not appear on Michigan's ballot.



For the New York senator, everything has to go as right in the next three weeks as it has gone wrong in the past three. Her survival depends not just on winning all three big states but on winning them convincingly. But some Texan delegates are chosen in caucuses, forums which have proved friendly to Mr Obama in the past, and Texan Latinos will not necessarily behave like their Californian cousins (who voted for her). Ohio has a lot in common with Missouri, which Mr Obama won. Mr Obama's chances in Pennsylvania will be boosted by Philadelphia, which has a large black population, and Pittsburgh, where John Kerry and his wife, Teresa Heinz Kerry, are powerful forces. If Mr Obama can prevent Mrs Clinton from winning the triple, then no amount of arm-twisting of superdelegates will save her campaign.

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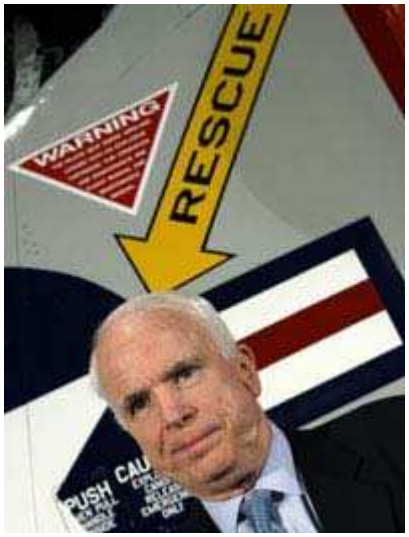
The Republican race

Cannon to the right of him

Feb 14th 2008 | RICHMOND
From The Economist print edition

The Republican front-runner keeps clearing hurdles, but more lie ahead

Reuters



Conflicting signals for McCain

A GRUMPY protester stood outside a museum full of fighter planes where Senator John McCain was about to give a speech. “No to amnesty” said his home-made placard. Mr McCain has resisted securing the border for ten years, he fumed, and his plan to give illegal immigrants a path to citizenship is a disgraceful reward for criminal conduct.

So whom will he vote for in November? Well, the Democrats are all socialists, he says, so he'll reluctantly have to pull the lever for, er, Mr McCain.

This anecdote could illustrate either of the two most popular theories about the front-runner for the Republican nomination. One is that since many conservatives detest Mr McCain, they will stay at home in November and the fired-up Democrats will thrash him. The other theory is that Republicans will rally round their leader to keep those ghastly lefties out of the White House. Mr McCain can certainly take heart from the knowledge that some of those picketing his stump speeches plan to vote for him anyway. But his problem with conservatives is nonetheless acute.

In many ways, it has been a good week for Mr McCain. After winning primaries in Virginia, Maryland and the District of Columbia, plus a caucus in Washington state, he now has, by CNN's estimate, 827 of the 1,191 delegates needed to clinch the nomination. His closest rival, Mitt Romney, dropped out of the race last week. His only remaining challenger is Mike Huckabee, who charms the heck out of evangelicals but cannot plausibly overtake him.

Still, as Mr McCain admits, the race is too interesting for comfort. Mr Huckabee shows no sign of dropping out. On February 9th he won Louisiana (narrowly) and Kansas (handily). He is a more gifted orator than his rival, and with Mr Romney gone, is collecting protest votes as well as his usual tally of born-again Christians.

At the Conservative Political Action Conference (CPAC), a meet-up for red-meat conservatives, he gave a flame-grilled speech. He playfully quoted Ecclesiastes: “A wise man's heart directs him toward the right, but the foolish man's heart directs him toward the left.” He said Americans would welcome a hungry immigrant who knocks on the front door, but God help you if you break through a window in the night. He lambasted the government (ie, Mr McCain) for putting a ladder up against the window. And he thundered that any judge who invokes international law to decide an American case should be “summarily impeached”.

Mr McCain, who is 71, sounds tired on the trail. The younger Mr Huckabee sounds like he is having fun. He plays each crowd like a laughing, cheering, “Amen”-hollering violin. He pokes fun at the national media for not taking him seriously. But he offers profoundly unserious policies, such as raising military spending from under 4% to 6% of GDP while simultaneously abolishing income tax. As he said in another context, “Folks, I didn't major in math. I majored in miracles.”

The question is not whether Mr Huckabee can win but whether his campaign will hurt the eventual nominee. On the one hand, the competition should sharpen Mr McCain's skills and keep the Democrats from hogging the evening news completely. On the other, a long fight could drain cash and energy that Mr McCain will need to fight the general election. Plus, if Mr Huckabee irritates him enough, he might lose his temper.

Mr McCain has the tricky task of mending fences with conservatives while continuing to attract moderates who applaud his stances on climate change, immigration and torture. His speech to CPAC was humble, yet firm: “I have made many mistakes. You can attest to that...but need not.” He stressed where he agrees with conservatives, on abortion, national security and government waste. He yielded little in other areas, saying he does not make promises he does not intend to keep. He was booed, but also cheered. “Well, he's just convinced me,” said June Nichols, a former Giuliani supporter.

Among the conservative elite, Mr McCain's most implacable foes are those who make a living by mouthing off. Talk-show hosts such as Rush Limbaugh loathe him. But Republicans who have worked in government and understand the need for compromise are flocking to his side. President Bush all but endorsed him this week. On the stump in Virginia, Mr McCain was flanked by two former governors, which was all the excuse he needed to tell a joke about two jailbirds in the prison chow line. “The food was better here,” one says, “when you were governor.”

For what little they are worth, the polls suggest that Mr McCain would beat Hillary Clinton but lose to Barack Obama. The badges and bumper stickers at CPAC offer a clue as to why. Anti-Hillary slogans are plentiful and angry. “Life's a bitch; don't vote for one.” “Happiness is Hillary's face on a milk carton.” But your correspondent saw only one anti-Obama badge, the mild “Obama? You gotta be kiddin' me.”

Republicans find it much harder to attack Mr Obama. This is partly because he is black, but also because he is unsullied by scandal and because they don't hate him as they do Mrs Clinton. Which is why Mr McCain hopes to face Mrs Clinton in November but expects to face Mr Obama.

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Military commissions

The Guantánamo six

Feb 14th 2008 | AUSTIN
From The Economist print edition

Charges for six detainees, confusion all round

ON AUGUST 4th 2001, Muhammed al-Kahtani flew from London to Florida with $2,800 in cash and no return ticket. A wary immigration inspector sent him packing. Five weeks later, after the terrorist attacks on New York and Washington, DC, authorities realised that Mr al-Kahtani may have meant to be the 20th hijacker. He was captured in Afghanistan and detained at Guantánamo Bay. After several weeks of berating, bullying and cajoling, Mr al-Kahtani remained defiant. The authorities asked Donald Rumsfeld, then secretary of defence, for permission to use more aggressive tactics. Mr Rumsfeld agreed. “I stand for 8-10 hours a day,” he scrawled on the bottom of a December 2002 memo. “Why is standing [by prisoners] limited to four hours?”

As Mr al-Kahtani's case suggests, moral clarity has been in short supply at Gitmo. Now that the Bush administration has at last got around to making formal charges, such abuses may come back to haunt it. On February 11th the Pentagon filed charges against Mr al-Kahtani and five other detainees for crimes related to the September 11th attacks, including conspiracy, murder, hijacking and terrorism. Prosecutors plan to try the men jointly in a military commission, and will seek the death penalty.

The administration sees the trial as a chance to achieve a long-sought legal victory in its “war on terror” and to remind the world of the evils of terrorism. In a memo to American embassies, the State Department suggested the commissions be compared to the Nuremberg trials, partly because no one fussed when the Nazis got the death penalty and partly because, say the generals, legal protections will be greater than at Nuremberg. But the Guantánamo tribunals are clouded by questions about how the detainees have been treated and whether military commissions can provide a fair trial.

In 2001, when George Bush announced that he wanted enemy combatants to be tried by the armed forces, his hope was to bypass basic legal protections such as the right of a defendant to be present at his own trial. In 2006 the Supreme Court decided that would violate the Geneva Conventions and that it was up to Congress to establish military commissions. Congress duly did so. But the Military Commissions Act retains features of Mr Bush's scheme. For example, it allows statements “in which the degree of coercion is disputed” to be admitted in some cases.

That means the detainees might be convicted based on statements made under duress. Five of the six were held in secret prisons before being transferred to Guantánamo. At least one, Khalid Sheikh Mohammed, was subjected to water-boarding. Mr Mohammed later boasted of dozens of atrocities, from planning the September 11th attacks to personally beheading the journalist Daniel Pearl.

At least investigators seem to have realised that they crossed a line. Beginning in 2006, a “clean team” worked to re-extract the relevant information, without torture. But it is rather hard to un-coerce anybody.

That prosecutors are asking for the death penalty adds a further point of contention both legally (the appeals process may be exhaustive) and politically (America's European allies oppose capital punishment). Americans themselves are becoming less enamoured of executions, though their objections are mostly procedural (see article).

All such concerns, though, may become moot. It will take months to sort out existing legal issues. Meanwhile, the Supreme Court is expected to hand down a decision on whether enemy combatants can challenge their detention in civilian courts. And the next president may not be keen to follow in Mr Bush's footsteps. Humanitarian concerns aside, the military commissions do not have a very impressive record so far. Only one person has been convicted since the war on terror began, and that was an Australian who went for a plea bargain.

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The death penalty

So long to Old Sparky

Feb 14th 2008 | AUSTIN
From The Economist print edition

An unlamented end to the electric chair

IN 1999 Raymond Mata junior killed his ex-girlfriend's three-year-old son. He dismembered the body and fed part of the remains to his dog. But when sentenced to death he appealed. His state, Nebraska, planned to send him to the electric chair. He considered that a cruel and unusual way to go. On February 8th the state's highest court agreed. It declared the electric chair unconstitutional.

The decision marks the end of—to non-Americans—one of the country's iconic objects. Nebraska was the only state still using electrocution as its sole means of execution. Other states with capital punishment prefer lethal injections. A few allow hangings and firing squads, and nine let inmates choose electrocution in some cases, but these options are seldom used. When a Tennessee man chose the chair in 2007, it was the state's first electrocution in almost half a century.

When the electric chair was first used, in 1890, it was considered a humane alternative to hanging. Compared with other options, such as suffocation, perhaps it was. But there have been many botched electrocutions, starting with the first; the inmate appeared to sweat blood when the capillaries in his face burst. Others have broken bones while convulsing. Some have caught fire.

Even a successful electrocution is macabre. Officials in Nebraska had to keep a fire extinguisher ready and an eye out for smoke coming from the prisoner's head. A smell of burnt flesh was to be expected. People being electrocuted appear to experience pain. Nebraska's state government was fine with this, partly because the process typically takes less than 30 seconds. But the state's highest court disagreed. “We reject the State's argument that this is a permissible length of time to inflict gruesome pain,” wrote Justice William Connolly for the majority opinion.

In practical terms, the Nebraska decision amounts to a moratorium on the death penalty in the state, not just a ban on a method. The legislature may balk at authorising lethal injections; last year a bill to repeal the death penalty itself failed by one vote. In any event, lethal injections are under federal scrutiny. The Supreme Court is currently mulling a case from Kentucky about whether the current method, which uses three separate injections, is also cruel and unusual.

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Urban flight from Los Angeles

Straight outta Compton

Feb 14th 2008 | VICTORVILLE
From The Economist print edition

You have heard of white flight. Now consider black flight

NEXT month the Burning Bush Baptist Church will hold its first service in a converted Sears department store. When the church was founded, in 1995, it had a congregation of 12. About 750 now attend Sunday services, and more are joining all the time. One reason for the church's growth is the oratorical skill of David Denson, its pastor. Another is that Burning Bush is a mostly black church, and there are a lot more blacks around these days.

Between 2000 and 2006 the black population of Victorville and Apple Valley swelled from 11,900 to 24,500. Two hours' drive from central Los Angeles and surrounded by Joshua trees, it is an improbable black haven. Victorville is a former military town on the edge of the Mojave desert to which Orson Welles exiled the writers of “Citizen Kane” to ensure they would finish the film without distractions.

Yet Victorville is typical. Other sprawling exurbs, such as Palmdale and Lancaster, are also seeing an influx of blacks looking for cheaper housing and safer streets. They reveal a dramatic shift in southern California's population, and provide clues to how America is changing.

Victorville's gain is Los Angeles' loss. Since 1990 the city's black population has dropped by a quarter, from 488,000 to 364,000, even as the overall number of residents rose. The exodus is most noticeable in areas where blacks were once concentrated, such as Compton and Crenshaw. The population of the 35th congressional district, over which the old-fashioned race warrior Maxine Waters holds sway, is now less than one-third black. “It's becoming hard to find black neighbourhoods,” says Dowell Myers, a demographer at the University of Southern California.

It is not easy to find them in Victorville, either. The city has black apartment buildings and the odd black street but no black districts. Nor do the other cities to which blacks are moving. So far, at least, southern California's ghettos seem to be disintegrating, not relocating. Price alone seems to determine where the new arrivals settle. “If you've got the money, you can move wherever you want,” says Eloise Gibson, a retired teacher in Victorville.

A similar drift is evident in northern California, where blacks are leaving the Bay Area for inland spots such as Stockton and Sacramento. Across America blacks are leaving inner-city areas. William Frey, a geographer at the Brookings Institution, a think-tank, calculates that the black population of suburban counties increased by a startling 26.5% between 2000 and 2006. They seem to be moving farther out of the city, and faster, in southern California than anywhere else.

A big reason is immigration. New arrivals from Latin America and Asia have pushed up rents in the metropolis. Until recently they pushed up house prices, too, benefiting the roughly 40% of black householders in south-central Los Angeles who own property. They could afford to move on. Immigrants have also blurred racial lines, producing a kind of confused tolerance. Boundaries that might be stark if there were only two races are a lot harder to police when there are more, especially since the groups are gradually blending.

Most of all, Mr Myers says, high house-prices have forced different groups together. In southern California people will happily trade ethnic homogeneity for an extra bedroom. It helps that most of the places blacks are moving are fast-growing, with little sense of history. Victorville has no traditionally white areas because it has no traditional areas of any kind.

Black churches are the clearest sign of Victorville's changing demography. These do not, however, resemble the community edifices that one finds in more established neighbourhoods. Many meet in shops or living rooms. Mr Denson's attracts the biggest black congregation in the area, he says, largely because he caters to commuters who want to spend precious hours with their families. He can get worshippers in and out in an hour and a half—quick for a black church.

Other changes are more worrying. Ken Jones, a high-school dropout who is learning construction skills, says his family moved from Los Angeles to get him away from gangs. It worked—he describes his life in Victorville as a “retirement”. But he says gangs and crime are becoming entrenched. Between 2000 and 2006 the number of robberies in Victorville increased by 62%. “They bring their lifestyle with them,” says Jim Melton, a youth worker.

At the moment, one of the engines that has driven this migration is stalling. Victorville and Apple Valley are mired in a housing crisis: San Bernardino county had 22,000 foreclosures last year, compared with 7,800 in 1996. Fewer people are moving as house prices fall. Yet this seems to have slowed, not stopped, the black exodus from Los Angeles. The pull of the suburbs is strong.

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Hannah Montana

The UnBritney

Feb 14th 2008 | WASHINGTON, DC
From The Economist print edition

Celebrity versus ordinary life

ONE desperate six-year-old tried to obtain concert tickets by claiming her father had died in Iraq (he hadn't). A ten-year-old leapt at the prospect of telling your correspondent how much she loved Hannah's music and clothes, even if she had never heard of *The Economist*. “Daddy reads it; we don't,” her mother admitted. Tickets to the sold-out shows fetch $3,000 on the secondary market, a steep price for the target audience: girls aged six to 14.

Welcome to the world of Hannah Montana. In the filmed version of her concert—which has just leapt to number one at the box office—15-year-old Miley Cyrus plays a dark-haired teenage girl by day who is transformed at night into a blonde teen singer, Hannah Montana.

Just when you thought each new pop tart would be sexier and more brazen than the last, Hannah breaks the downward spiral. She, like Miss Cyrus, dresses conservatively, wears only a little makeup and smiles more often than she pouts. The television series that began the craze explicitly says ordinary life as a teenager is preferable to popular indulgence as a celebrity, a message reflected in the real-life story of Miss Cyrus, the dark-haired daughter of country singer Billy Ray Cyrus, who insists her parents do not let her get away with much and who dons the blonde wig in real life when she sings on stage. Parents and young girls (though not, it seems, boys) like Hannah's dress and demeanour and revel in her dual role.

So does Disney. The suits have discovered that Hannah Montana's double life translates profitably into many media, attracting devotion from girls beguiled by Hannah's stardom but seeing themselves in the dark-haired Miley. The film had its run extended. One episode of the television series claimed a record audience for basic cable of 10.7m last summer. American girls may be obsessed with celebrity, but they are no less fascinated by themselves.

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The Mafia

End of the Gambinos?

Feb 14th 2008 | NEW YORK
From The Economist print edition

Organised crime gets whacked by the feds

THOMAS CACCIOPOLI (“Tommy Sneakers”), John Pisano (“Johnny Red Rose”) and Michael Urciuoli (“Mike the Electrician”)—the names sound like characters from “The Sopranos”, the acclaimed televised Mafia drama. But the Mafia in America is no fiction, as the 169-page indictment from which these names are drawn shows. “It is alive and real, and there is nothing romantic or glamorous about it”, says John Pistole, the deputy director of the Federal Bureau of Investigation. The litany of crimes in the indictment unsealed on February 7th goes back three decades and includes extortion, embezzlement, mail fraud, money laundering, illegal gambling and at least seven murders.

The crackdown is the largest against the American Mafia since the early 1990s. Local, state and federal authorities were all involved. So was the Italian government, which rounded up suspects in Sicily in an operation dubbed “Old Bridge” (Sicily has long been a recruiting ground for New York's families and the authorities may have seen an opportunity to break links between the two). But the main targets were three of the “five families” based in New York who control organised crime in America: the Genovese, Bonanno and, best known, the Gambino family.

John D'Amico (“Jackie the Nose”), the acting Gambino boss, was among the “good fellas” arrested. So were the reputed underboss, Domenico Cefalu (“Italian Dom” or “the Greaseball”) and *consigliere* Joseph (“Miserable”) Corozzo. With so many *capos* in jail, there are said to be few veterans left. Joseph King, a professor at John Jay College of Criminal Justice, says the mass arrests will disrupt the chain of command—and the Mafia's earnings.

Making money, mostly illegally, is the raison d'être for the American branch of the Mafia, says Mark Feldman, a former federal prosecutor and now a director of BDO Consulting, a professional-services firm. The indictment outlines the families' varied revenue streams. It says that the Mafia was involved in several high-profile city projects, including the expansion of the subway and even the rebuilding of Ground Zero (one of the men arrested “worked” for a company sub-contracted to haul debris from the site). The indictment charges some of those arrested with embezzling money from the coffers of the Teamsters and other unions' health and pension funds by underreporting the hours union members worked.

The prosecution's case is based in large part on an informant, now under federal protection, who wore a wire for three years and recorded hundreds of hours of conversations. A single trial of all 62 arrested mobsters is doubtful. Mr King reckons a series of smaller trials more probable—which will take a while. Even if successful, they are unlikely to eradicate the Mafia. As Ray Kelly, New York's police commissioner, noted, “they're resilient.”

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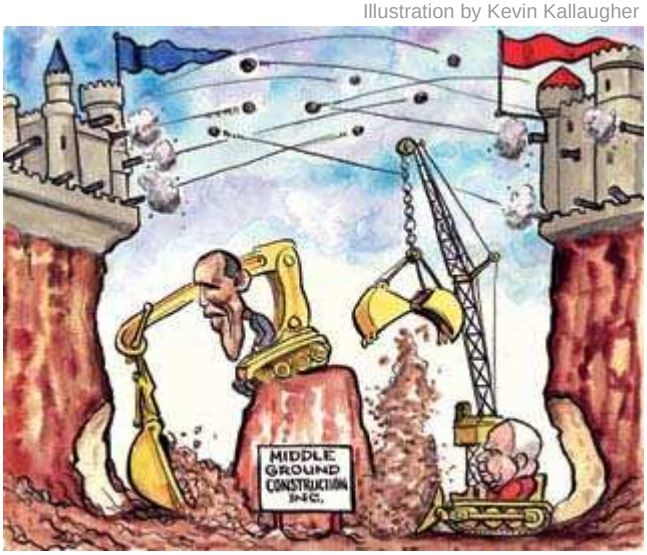
Lexington

A declaration on independents

Feb 14th 2008
From The Economist print edition

Illustration by Kevin Kallaugher



Independents are back from the wilderness and ready to determine the outcome of the presidential election

ONE of the most interesting political videos on YouTube features a young Obama supporter, Derrick Ashong. A camera-wielding interviewer collars Mr Ashong in the street and starts to pepper him with questions. The interviewer assumes that his victim's casual appearance—he is wearing a baseball hat, a shell necklace and is chewing gum—betokens an equally casual approach to politics. “Do you have any specifics?” he demands aggressively. “What are their policies?” Mr Ashong delivers a series of carefully argued replies that could form the basis of an editorial in a serious newspaper. The interviewer is increasingly abashed. But, having delivered his defence of Barack Obama, Mr Ashong concludes the interview by saying “I'm independent. I'm not a Democrat. I might vote for McCain.”

Independent voters have been marginalised over the past decade. Armies of partisans have marched over the political battlefield. Elections have been much more about energising the faithful than reaching out to wavering voters. The 2004 election was the electoral equivalent of the Somme—trench warfare between the blue army and the red army enlivened by the occasional daring raid.

There are growing signs that this era of American politics is coming to a close. George Bush, America's polariser-in-chief, has an approval rating of little more than 30% at a time when Arnold Schwarzenegger, an advocate of “post-partisanship”, scores double that. Colin Powell, no mean judge of the American mood, has declared that he will vote for the presidential candidate who can “do the best job for America”, whether that candidate is “a Republican, a Democrat or an independent”. Michael Barone, the co-author of the indispensable “Almanac of American Politics”, speculates that we are moving from an era of “trench warfare” to an era of “open-field politics”.

Over 30% of Americans call themselves independents—more than call themselves Republicans and about the same as call themselves Democrats. These independents are younger and better educated than the average American. They are pragmatic, anti-ideological and results-oriented, hostile to both Big Labour and Big Government but quite prepared to see the government take an active role in dealing with problems like global warming.

Over the past decade or so, independents have been forced to act like either “soft” Republicans or “soft” Democrats—reluctant conscripts into one or other of America's armies. But in this election the opposite is happening—more and more partisans are thinking and acting like independents. Polls show that at least two-thirds of Americans think the country is headed in the wrong direction. A *Washington Post* poll last

year showed that 77% of voters would consider voting for an independent.

By a chapter of accidents the Republicans have ended up with their one presidential candidate ideally suited to attracting independents. The party's thumping in the 2006 mid-term election was almost entirely due to its waning fortunes among independent voters. Conservatives pulled the Republican lever in the usual numbers. But independents voted for Democrats by 57% to 39%. John McCain is thus a gift from heaven.

The very qualities of Mr McCain that infuriate Republican loyalists endear him to independents. He has frequently clashed with Mr Bush, a man whom independents loathe. He has wrestled with special interests in Washington, and repeatedly gone into battle with his own party, particularly over immigration reform. Mr McCain has demonstrated his strength among independents: he led the field among them by ten points in New York, 23 points in California and 31 points in Illinois.

This gives him a chance of pulling off a surprise upset in the general election. Most analysts expect the Democrats to carry all the states John Kerry won in 2004, plus Ohio, which has shifted to the Democratic column. But Mr McCain might scramble these calculations by winning New Hampshire, where more than 40% of the electorate are independents and where the Arizona senator is almost an honorary citizen. That would give him a 270-268 victory in the electoral college.

A case for Obama?

This suggests Democratic primary voters need to pay close attention to independents. The polls suggest hard-core Democrats would be happy either with Hillary Clinton or Mr Obama. But there is no doubt who does better with independents. Until this week, Mrs Clinton's strength has been her ability to turn out the vote in solid Democratic states such as California and solid Democratic constituencies such as blue-collar voters. But she repels many independents who associate her with Beltway business-as-usual.

In contrast, Mr Obama sounds the themes that most appeal to independents—frustration with America's broken politics; hope of finding pragmatic solutions by reaching across the partisan divide. And independents have not disappointed him. Mr Obama beat Mrs Clinton among such voters almost everywhere, even in her strongest states such as New York and California. A recent Pew poll suggests Mr Obama has a 62% approval rating among independents, the highest of any candidate.

This should weigh heavily on the minds of the Democratic “superdelegates” (office holders and party elders who have an *ex officio* vote in the convention) if they are called upon to break a tie in the delegate race. Mrs Clinton's biggest problem is not that she is being out-campaigned by the silver-tongued Mr Obama. It is that she seems to belong to the previous era of American politics—the one of battling political machines. Republicans have accidentally stumbled through to the next age of politics, although the message has not yet reached the backwoods wing of the party. The big question now for many Democrats is whether their party can do likewise.

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Oil in Venezuela

Exxon's wrathful tiger takes on Hugo Chávez

Feb 14th 2008 | CARACAS
From The Economist print edition

Illustration by Claudio Munoz

A dispute with Exxon adds to the troubles of Venezuela's president and the state-owned oil behemoth on which he relies

Get article background

AFTER winning a new term as president by a landslide a year ago, Hugo Chávez decided that it would be a nifty idea to squeeze the remaining private oil companies operating in Venezuela. So he ordered the tearing up of the contracts they signed in the 1990s, under which they were investing to develop deposits of super-heavy crude. In their place would come joint ventures in which Petróleos de Venezuela (PDVSA), the state oil company, would wield the controlling share. A year on, however, one of the multinationals, Exxon Mobil, is fighting back. This has prompted Mr Chávez to complain that the United States is waging “economic warfare” against his country. But such fiery talk cannot disguise the fact that both he and PDVSA are in a swamp of trouble.

On February 7th Exxon announced that it had obtained interim court injunctions in the United States, Britain, the Netherlands and the Dutch Antilles preventing PDVSA from disposing of over $12 billion in assets. It had sought the freeze as a preventive measure, to ensure that PDVSA could pay Exxon's claim for compensation for the seizure of its operation in the Orinoco heavy-oil belt.

Several rivals accepted the government's new terms. Exxon, along with ConocoPhillips, another American firm, chose to invoke the arbitration clause in its contract (which had over two decades to run). More than the money, it is reputed to want to send a firm message to the world's resource nationalists. Or, as Venezuela's deputy oil minister, Bernard Mommer, put it, to “intimidate other producers”.

Such procedures grind slowly. The International Centre for the Settlement of Investment Disputes, a body linked to the World Bank, has yet to convene the panel that will hear the case. In parallel, and seemingly without PDVSA's knowledge, Exxon sought the court rulings. The Venezuelan government insists that the freeze applies directly only to one American bank account (with $315m) belonging to PDVSA. That ruling was upheld at a full hearing in New York on February 13th.

Mr Chávez responded, not for the first time, by threatening to halt oil exports to the United States. These run at around 1.2m barrels a day (b/d) and represent about three-quarters of Venezuela's total export earnings. Under Mr Chávez, Venezuela's economy has become heavily dependent on imports, especially of food. Few believe he can afford to implement his threat, and the oil price rose only slightly.

Not so PDVSA's bonds, whose value dipped sharply on investors' fears that lenders may face a higher risk of eventual default. On the face of things, that makes little sense. With around $100 billion in assets

worldwide, including refineries in the United States, the Caribbean and Europe, PDVSA can easily pay any compensation award, which is unlikely to total more than $6 billion at most.

But there are many signs that the once-mighty PDVSA may be running short of cash. Since January 8th, for instance, its customers have been required to settle their bills eight days after shipment, rather than 30 days after receipt, as is customary. By the end of the month it was offering eight super-tanker loads of fuel oil at below market price for cash. In 2007 the company's debt burden rose from under $4 billion to over $16 billion. The uncertainty caused by the Exxon dispute means its borrowing costs may rise.

PDVSA is no longer just an oil producer. Mr Chávez has made it into what Elie Habalian, a former Venezuelan governor of the Organisation of Petroleum Exporting Countries (OPEC), calls a “parallel state”. The company has transferred billions of dollars to funds controlled by the president, and directly finances and runs a range of social projects. “There's a ministry of education—but PDVSA educates too,” says Mr Habalian. “There's a housing ministry, but PDVSA builds houses, and so on.” In response to shortages of basic foodstuffs, last month Mr Chávez ordered PDVSA to create a new subsidiary to distribute food, most of it imported.

At the same time, PDVSA's investment spending has been slashed, leading to a decline in oil output, the motor of the economy, for ten consecutive quarters, according to José Guerra, a former Central Bank director. A much-trumpeted government plan to increase oil production to 5m b/d by 2012 does not seem to have got off the ground. Officials claim that daily production is holding steady at over 3m barrels, but other sources (including OPEC) put the figure at less than 2.5m, and falling. Venezuelans use more oil themselves, thanks to a consumer boom and Mr Chávez's reluctance to raise the price of petrol. Officially, consumption is 600,000 b/d; it may be a third higher, reckons Ramón Espinaza, a former chief economist for PDVSA. Meanwhile, Mr Chávez is shipping 300,000 b/d to Caribbean neighbours (notably Cuba) at subsidised prices.

No important new deposits have been found since the president took office in 1999. Officials admit that PDVSA is short of drilling rigs for exploration (though Mr Chávez recently loaned two rigs to Ecuador). Much therefore hangs on the development of the Orinoco belt, with its estimated 250 billion barrels of heavy crude. But many of the companies recently invited (without competitive tender) to take part in these projects are state-owned outfits from countries, such as Iran and Belarus, whose governments are friends with Mr Chávez; most lack both the expertise and the financial muscle to develop them.

Several years of high and rising oil prices, along with PDVSA's policy of secrecy, have helped conceal its difficulties. With a slowing world economy making a further rise in the oil price unlikely in the short term, concealment will get harder. Waiting in the wings is ConocoPhillips, with a compensation demand much higher than that of Exxon. Venezuela's oil company will “fall apart the moment that prices drop to realistic levels,” Mr Habalian says. Unless he changes course, so might Mr Chávez's government.

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Belize

The squid and the whales

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Courting a small Caribbean state

IT MAY be a small country of only 300,000 souls, squeezed between Mexico and Guatemala, but Belize has attracted the attention of some of the world's rich and powerful. Foremost among them is Lord (Michael) Ashcroft, a British peer who grew up there and who has long been its dominant businessman. He was its representative at the United Nations from 1998 to 2000. He is now deputy chairman of Britain's Conservative Party.

More recently Venezuela's Hugo Chávez has taken an interest. With an election in the offing, Belize's government unwrapped a $10m gift from Mr Chávez last month. Police and soldiers had to hold back the rush at a local office of the ruling party as voters clamoured for handouts of hundreds of dollars, ostensibly to help defray housing costs.

Yet the voters could not be bought. On February 7th the opposition United Democratic Party swept to power, promising clean government. That was not a surprise: in five of the six elections in the English-speaking Caribbean in the past ten months, incumbents have been dumped. Said Musa, the outgoing prime minister, had ruled Belize, a former British colony, since 1998 amid picturesque scandals and mishaps, including a debt default in 2006.

His nemesis, Dean Barrow, is a shrewd and energetic lawyer who becomes Belize's first black prime minister. Although miffed by Venezuela's political clumsiness he is happy to take its subsidised oil. Mr Barrow is similarly diplomatic about Lord Ashcroft, who retains Belizean citizenship and controls the country's biggest bank and its near-monopoly telecoms firm. Some locals resent his influence. Has he been good or bad for Belize? “The jury's still out,” says Mr Barrow.

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Mexico

Big, expensive and weirdly spineless

Feb 14th 2008 | MEXICO CITY
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A much-needed human-rights watchdog continues to disappoint

Get article background

ONE milestone in Mexico's slow transition to democracy was the government's creation in 1990 of a National Human Rights Commission. It would be another six years before elections became free and fair, and another decade before power passed peacefully to the opposition. But the creation of the commission was an acknowledgement that Mexicans had rights, and that these were frequently violated by brutal and incompetent police forces. Its job is to press other government agencies to respect those rights, by investigating abuses and issuing recommendations to punish and prevent.

EPA

Do beat him more gently, please

Given the circumstances of its birth, it is perhaps not surprising that the commission has evolved cautiously. José Miguel Vivanco of Human Rights Watch, a New York-based lobbying group, says that in size and resources it is unmatched anywhere in the world. It enjoys an annual budget of $75m. But despite the arrival of democracy, the commission achieves little. “They are good at documenting abuses,” says Mr Vivanco, “but then nothing is done.” In a report on the commission published this week, Human Rights Watch berates it for failing to use its powers to issue public condemnations of officials who ignore its recommendations.

Every year Mexicans take some 5,000 cases to the commission, yet it issues only 40-50 non-binding recommendations over the same period, says Juan Carlos Martínez of Fundar, a think-tank in Mexico City. And the commission is oddly secretive. It is exempt from the enforcement machinery of Mexico's freedom of information law. Mr Martínez notes that it charges 80 pesos ($7.40) a page for those documents it does release, which is a prohibitive price for the average citizen.

The commission also has a habit of declaring cases resolved without consulting the victims. Its critics call this spineless. They blame José Luis Soberanes, whom the Senate appointed in 2004 to a second five-year term as the commission's head. A member of Opus Dei, a conservative Catholic organisation, he declined to be interviewed for this article. One of the few times he has used his power to take a case directly to the Supreme Court was an attempt to overturn a local abortion law approved by the government of Mexico City.

How widespread are human-rights abuses in Mexico? In 2005 the commission confirmed that the police often used torture to extract confessions. Typically, however, its only recommendation was that there

should be an official strategy to prevent this. It did not throw its weight behind a campaign to ban the use of coerced confessions in trials.

All this is an opportunity lost. President Felipe Calderón has deployed thousands of troops in a battle against violent drug mobs for which he has also sought American aid. If he is to maintain public support for this campaign, it is vital that abuses are properly investigated and punished. At the moment the commission looks more like an apologist for abuse rather than an advocate for the abused.

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Argentina

Party time

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Néstor Kirchner tries to rule Peronism

WHEN Argentina's economy collapsed in late 2001, its political system tottered too. After street protests ousted Fernando de la Rúa from the presidency, four replacements came and went in rapid succession. The economy has since recovered vigorously, but Argentina's political parties have not.

What was essentially a two-party system has lost one of its pillars. The Radical Civic Union, a mainly middle-class party founded in the late-19th century, was the main political casualty of the collapse. It won just 2% of the vote in the 2003 presidential election. That was ironic: Mr de la Rúa, a Radical, was executing economic policies designed by his predecessor, Carlos Menem, a right-wing Peronist.

But the Peronists continue to be Argentina's dominant political movement, as they have been since Juan Perón, the populist colonel after whom it is named, first became president in the 1940s. Under Néstor Kirchner, elected president in 2003, and his wife, Cristina Fernández, who succeeded him last year, it is the Peronist left that is in the ascendant.

And yet Peronism remains an amorphous, faction-ridden shambles. Formally known as the Justicialist Party, the courts have prohibited any presidential candidate from using this name after the party failed to hold a primary in 2003. In that year, as in 2007, three different candidates calling themselves Peronists (but running for improvised parties) stood. This judicial freeze on the party was quite convenient for the Kirchners. They formed alliances both with leftist protest groups and with turncoat Radicals, one of whom is Ms Fernández's vice-president. She did not have to bother with a primary either.

In his new role as first man, Mr Kirchner has set himself the task of restoring Peronism's legal status as a party, and becoming its president. That reflects shifting political winds. Last year's election showed that the first couple's appeal is limited to the Peronists' historic base: the working-class of the Buenos Aires rustbelt and client groups loyal to provincial strongmen. They were shunned by the urban middle class. Moreover, once Argentina's economy slows, Ms Fernández may have less scope to buy off dissent. Formal party discipline might help to prevent defections.

Mr Kirchner this month coaxed back to the Peronist fold Roberto Lavagna, his former economy minister who ran against Ms Fernández with Radical support. But there are risks in his strategy. The more Mr Kirchner succeeds in uniting Peronism, the bigger the space that will open up for opposition outside the movement. “Peronism today is like a truck zig-zagging between lanes,” concedes Mr Lavagna. “Once it picks a lane and starts going straight, other cars can pass it.”

Indeed so. The opposition is even more split than the Peronists. Elisa Carrió, a former Radical, and Hermes Binner, the socialist governor of Santa Fe, have little in common with Mauricio Macri, the mayor of Buenos Aires who was once close to Mr Menem. But if he succeeds in bringing more coherence to Peronism, Mr Kirchner may set an example for his opponents.

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Peru's hotel industry

Killing the tourism goose

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Between nimbyism and price-gouging

Get article background

INCA ruins, splendours from even-older cultures, Spanish colonial towns, pristine jungles and good food: Peru has much to offer the tourists who are flocking there in ever-greater numbers. But if it is not careful, its tourist industry risks becoming its own worst enemy.

Having doubled so far this decade to 1.8m last year, tourist arrivals were up a further fifth in January compared with the same month in 2007. Adding to hopes of a bumper year of visitors, two big summits—one involving European and Latin American leaders, and the other of APEC, a group of Asian and Pacific economies—are to be held in Lima.

Not surprisingly, the government wants to stimulate hotel building and other tourist infrastructure. But not everyone is happy with the way it is doing so. Local authorities in Cusco, the former Inca capital, shut down their city on February 7th in protest at a new law that would allow private investment near cultural heritage sites. Trains to Machu Picchu, the spectacular Inca site which attracts more than 800,000 visitors a year, were halted.

Hugo Gonzales, who heads the regional government, claims that the law would permit the privatisation of archaeological sites, including Machu Picchu. That seems unlikely. But others fret at frenzied building that might disfigure the very places the tourists come to see.

Congress voted to repeal the law on the eve of the protest. Officials insist that the law contained safeguards against irresponsible development, and worry that its repeal will hinder efforts to attract tourists to less-visited regions and so ease the pressure on Machu Picchu.

What is not in doubt is that Peru needs more hotels. Salivating at the trade generated by preparations for the summit meetings, some less-than-luxurious establishments in Lima have raised their rates up to tenfold (to $800 a night), prompting the government to file a complaint to the competition watchdog. Carry on like that and the tourists will soon go elsewhere.

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Pakistan's election

The posthumous poll

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To a fanfare of suicide-bomb blasts, Pakistanis are due to deliver their verdict on wheat, America and Pervez Musharraf

AP

ON A lofty platform, out of suicide-bomb range, Shahbaz Sharif, a leader of Pakistan's second opposition party, the Pakistan Muslim League (Nawaz) or PML (N), promises poor Lahoris change. “Our leaders have been buying themselves bullet-proof cars and doing nothing for the people!” he thunders. A thousand men—about half the number expected to turn up to a dusty bazaar in the city—roar in approval. Then Mr Sharif is gone: whisked away by a motorcade that may include the two bullet-proof cars given to the PML-N by King Abdullah of Saudi Arabia.

The run-up to a general election due on February 18th has seen relatively little campaigning—but lots of violence. Since the assassination on December 27th of Benazir Bhutto, leader of the Pakistan People's Party (PPP), over 400 people have been killed by terrorists, mostly in suicide-bombings. The Awami National Party, the only outfit campaigning hard near the radicalised frontier with Afghanistan, suffered bomb attacks on its rallies on February 9th and 11th, in which 36 perished.

This week the government struck back. In Baluchistan province, it arrested the Taliban's former operations chief in Afghanistan, Mullah Mansoor Dadullah. The same day in north-western Pakistan kidnappers seized Pakistan's ambassador to Afghanistan, Tariq Azizuddin, with his guard and driver. They have reportedly offered to swap them for Mr Dadullah.

The violence may deter many Pakistanis from voting. Even in safer times, most do not bother with it: 41% of voters turned out in the country's previous election in 2002. A low turnout would help President Pervez Musharraf, a recently demobbed army ruler, to rig the election on behalf of his political allies, the Pakistan Muslim League (Q), or PML(Q). Rigging by army spies is another Pakistani election tradition. The International Republican Institute (IRI) has withdrawn election monitors on security grounds—and having been refused permission to conduct exit polls.

Yet it is not clear that Mr Musharraf and his crew could change the result. According to a poll for the IRI, only 15% of Pakistanis approve of Mr Musharraf—half the rating even of his main sponsor, President George Bush, in America. Of those polled, 50% said they would vote for the PPP, now led by Miss Bhutto's widower, Asif Zardari, 22% plumped for PML(N) and 14% for PML(Q). Taking the hint, some PML (Q) candidates have dropped the party symbol, a bicycle, from their campaign material.

Several polls suggest that shortages of wheat and other essential foods, high inflation and worsening

power cuts are the main reasons for Mr Musharraf's unpopularity. The shortage of wheat, despite a bumper crop last year, has been blamed on the former prime minister, Shaukat Aziz. To help cut a big trade deficit, nearly 1m tonnes was exported. Smugglers may have disposed of a similar amount. A mafia of well-connected wholesalers are now hoarding the crop. In recent months the price of flour has almost doubled.

Most Pakistanis also blame Mr Musharraf for their country's grave insecurity. According to the IRI poll, 89% think Pakistan should not support America in its “war on terror”. In addition, many accuse Mr Musharraf, or his political allies, of murdering Miss Bhutto; she was killed in a suicide attack after a campaign rally. Miss Bhutto had accused several Musharraf henchmen of plotting to assassinate her.

In a tribal society, where honour and sacrifice are prized, many Pakistanis are expected to give a sympathy vote to the PPP. In Hussainabad, a slum district of Lahore, a gang of men sunning themselves on a rubbish-strewn railway track say that they are normally PML(N) voters but this time will vote PPP. Long since defined by the sufferings of its leading dynasty, the Bhutto clan, the PPP is understandably encouraging this emotion. It has been running a minute-long eulogy to Miss Bhutto on many television channels, which makes no reference to her party.

In fact, pollsters have a dire record in predicting Pakistani elections. Rigging and violence are two causes of uncertainty. Another concerns the feudal nature of many constituencies, and the habit of their hereditary rulers of switching horses from poll to poll. Of 183 outgoing parliamentarians from Punjab, the most populous province, 25 have changed parties to contest this election. Land-owning families, especially in unreformed southern Punjab and Sindh, also cut deals with one another, to ensure their maximum representation in the elected assemblies—for one party or another. As the former party of government, the PML(Q) has many strong land-owning candidates. It may legitimately do better than predicted.

Mr Musharraf must hope his opponents will at least fail to win a two-thirds parliamentary majority. That would allow them to overturn the constitutional changes that he forced through to secure his own recent re-election—and perhaps turf him from power. Indeed, Mr Zardari and the PML (N)'s leader, Nawaz Sharif, neither of whom is personally contesting the poll, said this week that they were ready to form a coalition government.

It was a stirring moment—a promise of civilian rule returning to Pakistan after nearly a decade. Of course, it is a shame that both politicians are massively compromised: by allegations of corruption, brutishness and former misrule. Then again, to believe in Pakistani democracy, you have to believe in redemption.

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China's farmland

This land is my land

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Peasants for privatisation

"LAND to the tiller" has been a slogan of Chinese revolutionaries since Sun Yat-sen used it in 1924. Mao Zedong came to power in 1949 with just such a promise. Now some of China's peasants want his party to make good on the pledge. Late last year groups in different parts of China began simply claiming land as their own individual private plots.

China's constitution decrees that rural land is owned by "collectives". But it does not make clear who represents these collectives. This vagueness has been one of the biggest causes of rural unrest in recent years. Rural officials, eager to make money for themselves as well as their localities, often appropriate land from farmers to sell to developers. They say they are acting on behalf of the collective. The farmers disagree. If they receive any compensation at all, it is only a fraction of the market value.

In recent years a few Chinese scholars have suggested that privatising rural land would make such land grabs far harder. Their views have been dismissed by Communist Party officials, for whom the collective ownership of rural land is one of the very few core ideological principles left standing in the rush to embrace capitalism.

Of the handful of incidents that have come to light where peasants have taken matters—and land—into their own hands, the first was in the province of Heilongjiang. A statement circulated on the internet in December by leaders claiming to represent 40,000 peasants in 72 villages in Jiamusi prefecture called on village representatives "to pledge to fight to the death" to protect land from seizure by corrupt officials. It said the current system of collective ownership had turned peasants into serfs. Peasants, it said, should have the right to negotiate their own price for land appropriated from them.

Isolated groups of peasants elsewhere followed suit, including some in Shaanxi, Jiangsu, Sichuan and Tianjin. Villagers have likened themselves to the group of peasants in 1978 in a village in central Anhui, who broke up the land into plots farmed by individual households. At the time, they seemed to be taking a big risk. But the party itself soon decided that the Mao-era communal farms had failed and households should be allocated plots of land. The Anhui villagers became famous and the new "household-responsibility system" pushed up yields and incomes. Land ownership remained unchanged.

The flurry of land-rights declarations was soon suppressed. Human-rights groups report that two peasant leaders in Heilongjiang were sentenced in January to labour camp. At least two leaders in Shaanxi have

also been detained. Chen Yongmiao, a Beijing lawyer following these developments, says other villagers are preparing to issue similar declarations, but have been slowed down by the recent lunar new year celebrations.

The central government has given a frosty response to the idea of privatising rural land. On January 30th a senior party official, Chen Xiwen, said he saw no prospect of such a move. But some state-controlled newspapers have given unusual prominence to the issue. In January *Southern Metropolis Weekly* published a lengthy account of the incident in Heilongjiang. It mentioned that peasants did briefly enjoy private land-ownership rights after Mao took over. Other newspapers have published academics' appeals for new thinking on land ownership.

The party may have hoped that such debate would be put to rest by the passage last March of China's first law on property rights. This allows the renewal on expiry of the 30-year land-use leases most peasants were granted when plots were divided among households. Officials said the process would be automatic, with renewals granted indefinitely. But peasants still cannot sell or mortgage their plots.

The government worries that the country's food security will be jeopardised by the loss of farming land. So it is alarmed that peasants living close to cities have increasingly been behaving as if the land is theirs anyway. Urban demand for housing has pushed prices up rapidly in recent years. Farmers have been taking advantage of this by selling land, or even their own homes, to developers without proper authorisation. Urban residents have been keen to buy these village properties because they are considerably cheaper than legitimate ones in the cities.

In January the central government issued a directive reminding city-dwellers that they were banned from buying village properties. But enforcement is likely to be half-hearted at best. Chinese press reports have suggested that as many as one out of five homes purchased in Beijing are on rural land unauthorised for such use. Evicting their occupants would anger the middle classes. Their wrath frightens the party far more than the tillers'.

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Taiwan's National Palace Museum

Treasure island

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From The Economist print edition

Beauty is truth, truth beauty. But make sure the law is watertight

AFP

A still unravish'd bride of quietness

IT IS the finest collection of imperial Chinese art anywhere. But Taipei's National Palace Museum rarely sends its treasures overseas. Indeed the exhibition that opens in Vienna's Kunsthistorisches Museum on February 26th will be only the fourth big foreign loan it has made since it opened in 1965. Like everything else in Taiwan, the art collection is coloured by the tense relationship with China. The exhibition is possible only because Austria, like America, France and Germany, the three earlier destinations, passed legislation granting exhibits immunity from judicial seizure, to stop China staking a legal claim to them.

Of the Palace Museum's 650,000 items, 230,000 come from China's imperial collection, started in the Song dynasty in the 10th century. Partly as a badge of political legitimacy, and partly to protect the artworks from the advancing Communists, Chiang Kai-shek's Kuomintang shifted them from China to Taiwan in 1948 and 1949 before retreating there after losing the civil war.

For nearly 30 years the museum served as a fortress guarding these political symbols from Beijing's Forbidden City. As democracy took root in Taiwan, however, the museum became a diplomatic tool to help counter Taiwan's acute isolation. The president's wife, Wu Shu-chen, made an unusual trip to accompany exhibits to Germany in 2003.

According to Lin Mun-lee, the museum's director, Japan has lobbied for some 20 years to have a collection appear there, but its parliament has not passed the regulations needed. A loan to Taiwan's only diplomatic partner in Europe, the Vatican, has likewise not been possible because Italy would not offer artworks immunity from seizure.

An official from China's State Administration of Cultural Heritage suggests that Beijing has never considered reclaiming the objects from Taiwan because “Taiwan is part of China.” The island's independence-minded Democratic Progressive Party administration has realised that returning the treasures to China is not on, and has tried to use them to its own advantage. But Mr Lin says that, should Taiwan one day be forced to make a choice between its destiny and the treasures, it should be a democratic decision by Taiwan's people. China, of course, will do all it can to deny them the choice.

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Timor-Leste

Dawn raids

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Violence returns

LESS than a decade after winning its freedom from Indonesian occupation, Timor-Leste is in a mess. The government's failure to resolve an ugly split in its army in 2006 has come back to haunt it. According to the most plausible account of a confused incident early on February 11th, two carloads of armed rebels pitched up at the home of the president, José Ramos-Horta, reportedly intending to kidnap him. In a gunbattle with his guards, two were killed, including their leader, Alfredo Reinado. Mr Ramos-Horta, though warned of the attack, went home from his morning walk, and was shot and badly wounded. Xanana Gusmão, the prime minister, was also ambushed in his car but escaped.

Mr Gusmão described the incident as a thwarted “coup”. He declared a 48-hour state of emergency, later extended by ten days, and asked for reinforcement of the 800-strong Australian-led peacekeeping force and the 1,600 United Nations police. The first of 340 extra Australian soldiers and police have started to arrive.

Reinado aligned himself with an army strike in April and May 2006 over alleged discrimination against soldiers from the west of the country, in which nearly half the army was sacked. He gained kudos for his stand against the brutality with which a subsequent mutiny was quelled. The fighting left 37 people dead and displaced 155,000. Reinado fled to the hills with 18 followers. He became a cult hero, especially among the growing ranks of unemployed young people, who relished his criticism of Timor-Leste's older leaders.

After Mr Gusmão and Mr Ramos-Horta asked the Australian forces to arrest him, five rebels were killed but their leader escaped. For the past year the government had kept up a dialogue with Reinado, in a vain effort to persuade him to disarm and face the courts. He said he would appear in court only if all foreign troops left the country and 600 mutineers were reinstated into the army. He recently accused Mr Gusmão of being behind the 2006 crisis, and called for his resignation.

Reinado's stronghold was in the coffee-rich western districts. Well-armed with weapons obtained from the border police, he had repeatedly threatened to use them against the government if it failed to meet his demands. In an interview with *Time* magazine last year he boasted of his guerrilla prowess, claiming, of the country's leaders, “if I want to, I can kiss them while they are sleeping.”

The latest violence is a serious setback for a country still struggling, with the help of the UN, to build its institutions. The International Crisis Group (ICG), a think-tank, argued recently that “the security sector's problems are both a cause and a symptom of wider political conflict” and might make Timor-Leste ungovernable.

The UN Security Council must decide this month whether to extend its expiring mandate in Timor-Leste. Mr Ramos-Horta has always maintained that the fledgling state needs the UN's help until 2010. A Nobel peace-prize winner, he sees himself as the only person in Timor-Leste able to build bridges between different factions in the traumatised society. But as in other conflict-ridden countries, it is extremely difficult to set up a security force that is trusted by all the people.

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The Japan Sumo Association

Heavy hitters

Feb 14th 2008 | TOKYO
From The Economist print edition

Scandal rocks the national sport

HIS meaty hands cupped his face, shielding it from cameras in the back of a police car. Masanori Fujii was one of three wrestlers and a former trainer arrested on February 7th for killing a 17-year-old sumo trainee in June. The body of the young recruit, Takashi Saito, was riddled with cigarette burns, bruises from baseball-bat blows and the scar from a beer bottle smashed against his forehead. His right ear was torn off. Initially, his trainer, or "stablemaster", denied hitting Mr Saito, who had several times tried to run away from the stable. The police ascribed the death to "natural causes" and the powerful Japan Sumo Association (JSA) accepted it.

Only when the stablemaster, Junichi Yamamoto, pressed the family to cremate the body quickly did the father demand an autopsy. It turned out Mr Yamamoto had wielded the bottle and ordered the three wrestlers to inflict more punishment. The death has shocked Japan. Even Yasuo Fukuda, the prime minister, said he took the incident very seriously and that it was important how the JSA deals with it.

But reforming sumo, which has a history of more than 2,000 years, is not easy. The JSA was founded in 1927 and has been scandal-prone ever since. In the 1930s a group of leading wrestlers left the JSA and created an independent sumo league to protest at unfair financial arrangements. More recently the JSA has been accused of tolerating match-rigging and its leaders of tax evasion.

The opaque self-governing institution oversees all aspects of sumo: organising matches, setting rules, promoting the sport and running its finances. An investigation released in December found that over 90% of stables hit wrestlers with sticks. In theory the JSA is supervised by the education ministry. But it is truly a law unto itself.

It comprises 105 "elders", highly ranked former wrestlers, who all own a share in the JSA, much like partners in a law firm. Shares are passed down from a retiring stablemaster to his prized retired wrestler, or sold to another former champion. Stablemasters (now numbering 53) must own one. A share costs around $2m and has fetched as much as $4m.

It is hard for former wrestlers to make a living outside the ring. A share in the JSA is usually their only financial asset. Little wonder the JSA's elders resist calls for openness and accountability. Reform would probably entail a loss of money and status—and give people other than wrestlers a say in how the sport should be run.

Life in the stables is gruelling. Some recruits are virtual prisoners, either because quitting is considered betrayal or for financial reasons: the JSA provides stables with a basic sum of $20,000 a year or more for each wrestler. So there is an incentive to drag back runaways, such as Mr Saito.

At the Oshima stable in eastern Tokyo one morning this week, 11 wrestlers collided, grunted, panted and tumbled their way through morning practice. One was occasionally slammed to a wall. Another was repeatedly thrown down, only to return to the ring gasping "*gottsuan desu*" ("thank you for the practice"). But when the training ended, the howls of pain soon changed to laughter.

The JSA took months before it expelled Mr Yamamoto, the stablemaster accused of killing the teenager. On February 1st it renewed its chairman for a fourth term, suggesting all is business as usual. That the police took almost eight months before making arrests underscores the degree to which officialdom tends to leave the JSA to itself. Sumo's origins lie in Shintoism; even today wrestlers are treated as deities and the JSA elders consider themselves high priests protecting sacred traditions. Yet the JSA's self-governance does depend on its doing some governing.

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Myanmar

If voting changed anything

Feb 14th 2008 | BANGKOK
From The Economist print edition

The junta would not contemplate allowing Myanmar's people to do it twice

Get article background

NOBODY could accuse the generals who run Myanmar of making hasty reforms. Their handpicked assembly took 14 years to decide the framework of a new constitution. A self-declared 2003 roadmap to democracy has so far proved long on detours and short on direction. So the junta's surprise declaration last week that it would hold a constitutional referendum in May and multi-party elections in 2010 should be cause for cheers. But Myanmar's winding path to democracy is littered with too many false starts for much optimism.

The constitution is still being fine-tuned, but its bedrock is little changed since the process began in 1993. A version previewed last September would reserve one-quarter of seats in the national parliament for army appointees, assign key ministries to top brass and permit army chiefs to declare a state of emergency when they deem fit. Analysts say the reclusive regime hankers after a “disciplined democracy” that keeps pesky dissidents out of power. That applies above all to Aung San Suu Kyi, the detained opposition leader, who is banned from office as the widow of a foreigner, and her National League for Democracy. It won Myanmar's last election in 1990. But the army refused to honour the outcome. Little wonder, then, that dissidents snort at the prospects for a free and fair choice in the junta's two-step ballot.

Foreign reactions have also been cool: Australia and America dismissed the planned referendum as a “sham”, while Japan lamented the exclusion of Miss Suu Kyi from the process. Ban Ki-moon, the United Nations secretary-general, said he was glad to see a timeframe for political reforms but urged the regime to reach out to its opponents. As the world winced last September at Myanmar's violent crackdown on peaceful monk-led demonstrators, the UN Security Council united in condemnation. After pushing talks between Miss Suu Kyi and the regime, however, its special envoy, Ibrahim Gambari, is now reduced to begging for another visa (not until April, comes the reply). Myanmar stonewalled previous UN envoys into silence. Without a more robust mandate, Mr Gambari may well suffer the same fate.

Some analysts credit China, Myanmar's second-largest trading partner, with nudging the junta into what looks like a concession. The theory is that, ahead of the Beijing Olympics, it wants to stop its links with Myanmar becoming another target of human-rights campaigners (see article). Asian neighbours, eyeing Myanmar's resources, are happy to play along. Singapore, the current chair of the Association of South-East Asian Nations, duly praised the election timetable. ASEAN's new chief, Surin Pitsuwan, said the regime should get the benefit of the doubt.

But outside pressure has its limits. Thant Myint-u, a Burmese historian, says the army is focused far more on internal politics and the quelling of ethnic insurgencies than on its sullied international name. Those dynamics may suggest 2010 as opportune for a military-civilian administration that can accommodate the ambitions of junior generals and armed groups now observing ceasefires. The junta's leader, Than Shwe, is also said to be anxious to protect his family and its fortune after he departs. Such concerns easily trump any external pressure to work with Miss Suu Kyi and her ageing cadres.

Staging a referendum less than a year after the brutal crushing of popular dissent could yet backfire, though. Aung Naing Oo, an exiled Burmese analyst, says activists see it as a potential spark for resistance, particularly if the army clumsily rigs the ballot. Elections are unpredictable even in Myanmar. The 1990 one did not go the generals' way. Myanmar is still living with the consequences.

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The Maldives

Sea, sun and jihad

Feb 14th 2008 | DELHI
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Islamist extremism rears its head in the tourist paradise

A RECORD number of tourists, some 650,000, visited the Maldives' upmarket and otherwise uninhabited island resorts last year. But from the populated parts of the Indian Ocean archipelago the news is more worrying. On a January visit to one of its 1,200 white sand and coral islands, President Maumoon Abdul Gayoom was rescued from a knife attack by a boy scout. The would-be assassin's shout of "*Allahu Akbar!*" was the latest evidence of growing Islamic extremism in the 350,000-strong nation of Sunni Muslims.

Last September terrorists detonated a bomb in the capital Male's Sultan Park, injuring 12 tourists. Foreign concern mounted in November when a video posted on an al Qaeda-linked website called for more attacks. The almost simultaneous police revelation that the "masterminds" of the Sultan Park attack had received training in Pakistan heightened fears. But the Maldives government insists there is no evidence that international terror networks have infiltrated the country.

Instead it blames homegrown extremism. Scholars who studied in Pakistan and the Middle East in the 1980s and 1990s returned imbued with a conservative strain of Wahhabi Islam, and found the Maldives' young population receptive. In the past ten years more and more women have started wearing headscarves or *burqas*. Young men have tended to boycott government-licensed mosques.

The richest country in South Asia in terms of GDP per head, the Maldives has widespread internet access, in Male at least. "There is a tendency to imitate foreign terror groups, even if there are no formal links," says Mohamed Nasheed, the information minister. The government long ignored these developments. Indeed, President Gayoom promoted Islam as the cornerstone of Maldivian national identity. The explosion in Sultan Park, however, led to promises of immediate action to defend the vital tourism industry.

But after 30 years of strong-arm one-man rule, Mr Gayoom is embattled. In 2003 street protests following a series of custodial killings almost toppled his regime, forcing him to promise democratic reforms. The country's first multi-party election is due this year.

With the president's future uncertain, his government has descended into tried and tested repression. The police have reacted with characteristic gusto to Mr Gayoom's call for a "no-nonsense" approach to extremism. The Maldivian Detainee Network, an activist group, says that more than 300 suspected religious dissidents have been detained since September. Men wearing the short trousers and long beards associated with Wahhabism are subject to random security checks. Most suspects have not reached the courts.

Attempts to impose a state-sponsored moderate Islam have fallen flat. The Supreme Council on Islamic Affairs, a scholars' body led by a Gayoom loyalist, has refused to ratify his ban on women veiling their entire body or to allow a fast track for the licensing of moderate preachers. With an eye on the election, the main opposition Maldivian Democratic Party has forged an alliance with the conservative religious Adhaalath Party, isolating the government politically.

Mr Nasheed complains that the reform process is impeding the government's ability to act decisively. But Mr Gayoom's high-handedness seems as much to blame for the failings of the counter-terrorism effort. Supreme Council rulings have been countered by ministerial decrees and political objections ignored. Denied access to legal recourse, religious radicals increasingly appear the victims of an arbitrary government. As elsewhere in South Asia, political uncertainty is providing a space in which Islamist extremism can grow.

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Malaysia

Snap! It's an election

Feb 14th 2008 | BANGKOK
From The Economist print edition

The ruling coalition will win; but maybe not by enough for the prime minister

Get article background

ETHNIC strife, rising prices and sagging approval ratings are poor portents of electoral success. So this week's dissolution of parliament by Malaysia's prime minister, Abdullah Badawi, more than a year before its term expires, suggests his strategists have some tricks up their sleeves. Or perhaps they reckon the going is unlikely to improve, and may worsen if America suffers a recession. The Election Commission has set March 8th as the date of the ballot.

No one expects Mr Badawi to repeat his storming debut in 2004, when he led the ruling coalition to a 90% sweep of 219 seats in Parliament. Defeat is unthinkable: the coalition has won every election since independence in 1957. But party officials are braced for a dip in support, and the opposition smells blood. Mr Badawi, who replaced long-time leader Mahathir Mohamad, said this week that he would be content with a two-thirds majority. Anything less, say analysts, and party rivals might pounce.

As with so much in Malaysia, the calculus comes down to race and patronage. Members of parliament from the ethnic-Malay coalition will court their rural heartlands with handouts, while junior partners deliver votes from Chinese, Indian and other minorities. The opposition, whatever its secularist aspirations, tends to play the same game (minus the goodies). If the Malay majority stays loyal, the government stays in.

But young, urban Malays may not play ball. Many joined a mass rally in November for electoral reform, defying a government ban, and glean their news from feisty blogs, not Malaysia's toadying press. Even harder to corral into the coalition will be ethnic Indians, who are seething over economic hardship and recent demolitions of Hindu temples. Disgruntled Chinese voters might also shun the scandal-ridden pro-government Malaysian Chinese Association.

Mr Badawi took office vowing a cleaner, more efficient administration, but has struggled to show results. His sedate, courtly style came as a welcome relief after the abrasive Dr Mahathir, but is now ridiculed as lethargic. Nobody can say the same of Anwar Ibrahim, a former deputy prime minister turned opposition firebrand. But a 1999 corruption case bars him from public office. That ban expires in April, perhaps another reason for a snap election.

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Iraq

The enigma of Muqtada al-Sadr

Feb 14th 2008 | BAGHDAD
From The Economist print edition

Eyevine

As a truce nears its end, the spotlight on a key Shia cleric intensifies

Get article background

AFTER hours of negotiations in the smoke-filled reception room of a sheikh's villa in the western Baghdad district of Hay al-Amil, community leaders—among them shopkeepers, lawyers, teachers and a police captain—thought they had finally clinched a deal. Displaced Sunni families in the district could return to their homes across the street in a mainly Shia housing estate. And Shia families who had been kicked out of their homes on the mainly Sunni side could go back to their old properties too. Both sides would be honour-bound to guarantee the safety of those who returned.

But as they began to sip celebratory tea, Ali Hamdoun, the robed sheikh on whose gold-tasselled couches they sat, held up his hand for quiet. “And what does our brother from the Jaish al-Mahdi [the Mahdi Army] have to say?” he asked of a darkly clad man in the corner.

“Arrest these people, and you have our blessing and that of Sayyid Muqtada al-Sadr,” replied the man, who had been silent. He then handed the sheikh a piece of paper with the names of three local Sunnis who had allegedly been firing at a checkpoint of the Mahdi Army, the militia loyal to Mr Sadr, a Shia cleric who has probably the largest following of any leader in Iraq. Mr Hamdoun squinted at the list, then at the Sunni Arab contingent sitting along one side of the room. They nodded.

Neighbourhood reconciliation and security meetings like this are happening across Baghdad, said Mr Hamdoun, as he relaxed afterwards, drawing on another cigarette. But if the meeting had been held six months ago “that SOB from the Jaish al-Mahdi” would have dominated proceedings and dictated everything. Now he sits in the corner “like a puppy”.

Iraqis must hope that his boss keeps things that way, said the sheikh, whose tribe includes both Sunnis and Shias. If Mr Sadr's men return to their “old ways”, he said, Baghdad and Iraq could be divided for ever. Last year, on August 29th, Mr Sadr ordered his militia to cease fire and stand down. At that time his men—or at least those proclaiming allegiance to him—were taking control of swathes of the capital, street by street. Their declared mission was to “secure and protect” Shia residents against the mortal threat of violence from Sunni insurgents. In fact, they seemed bent on conquering the city.

Shias in many areas at first welcomed the Sadrists. The national police and the municipal authorities were feeble. The Sadrists provided a semblance of security and helped provide basic local services such as rubbish collection. But soon they also began to display a shockingly large appetite for sectarian

violence, corruption and extortion. They “cleansed” whole streets of Sunnis and summarily killed many of them; took over Sunni mosques; commandeered petrol stations to raise cash; and extorted protection money from businesses. Despite repeated appeals by Mr Sadr to his followers to refrain from sectarian violence and criminality, the brutish and ill-disciplined behaviour of many of them sowed dissension in the Shia community and lost them popularity even among poor working-class Shias who are the bedrock of Mr Sadr's constituency.

The American military “surge” into Baghdad further loosened the Mahdi Army's grip on the streets. Mr Sadr's reputation was dented by fierce fighting in the holy city of Karbala last August, when his men fought—and were fended off by—the Badr brigade militias of the Islamic Supreme Council of Iraq (ISCI) loyal to the Hakim family, chief rivals of Mr Sadr's clan. By then the Shia religious establishment, led by Grand Ayatollah Ali al-Sistani, had also had enough. So too, it is surmised, had Mr Sadr's friends in Iran, who apparently told the young cleric that the need for unity among Iraq's Shias was paramount. He should calm things down.

Mr Sadr promptly announced a six-month freeze on all Mahdi Army actions and apparently repaired to a seminary in Qom, one of Iran's holiest cities, to study and improve his religious credentials.

The truce has generally held. Together with the American surge, the building of gated communities in parts of Baghdad, the completion of sectarian cleansing elsewhere, and—perhaps most crucial—the Sunni “awakening” of tribal groups who turned against al-Qaeda-linked insurgents and chased them out of much of western Iraq and the Euphrates river valley, the Sadrist truce has helped halve the rate of violence across Iraq in the past six months.

During this relative lull, Mr Sadr has purged his organisation of some of its more gangsterish types and concentrated on politics, especially in parliament, where his block of about 30 members is still the largest in the main Shia alliance. But people still know more of what the Sadrists are against—Baathists, federalism, a continued American presence in Iraq, for example—than what they are for.

Their relations with Nuri al-Maliki, the Shia prime minister, have been prickly. Last April Mr Sadr pulled his six ministers out of the government. But he may have to get more involved again. This week, in a long-awaited burst of legislative energy, parliament enacted a package of bills to provide for early provincial elections, long demanded by the Sadrists, plus a budget and an amnesty that could see many thousands of Sunni insurgents freed.

At present Mr Sadr's rivals for Shia hegemony run eight of the nine mainly Shia southern provinces. The Sadrists think their support has swelled there since the last provincial polls, in early 2005, which they boycotted. Confident of winning, they want an early general election too.

Whose side are they on?

But they are in a state of flux. Though they have lost some of their military clout, they remain a key part of the Shias' new order. The Americans may be unsure whether to seek to accommodate them or to swat them. Less than a year ago, American commanders called Mr Sadr and his Mahdi Army the greatest threat to Iraq's future. Now their main target is al-Qaeda and its Iraqi associates. More recently, General David Petraeus, America's commander in Iraq, praised Mr Sadr as “responsible”. But American forces will still hit supposedly renegade Sadrist cells.

A recent report by the International Crisis Group, a Brussels-based lobby, says it would be “fanciful” to think of defeating the Mahdi Army. Bashing it too hard could still provoke fierce resistance in Baghdad and in the south. As the six-month truce nears its end and speculation rises as to whether Mr Sadr will renew it, other leading figures in his movement note a bellicose impatience among the rank and file.

Many Sadrists are said to be furious with Mr Maliki's government for letting Iraqi security forces use the cover of the surge to harass Sadrist militias in several southern cities. They also say the Iraqi police has been heavily infiltrated by the Badr brigade, the ISCI militia which is their chief rival among the Shias.

Mr Sadr remains a pivotal figure both in politics and in military matters. But he has many enemies, among both Sunnis and Shias. In truth, nobody is sure where he wants to go, perhaps not even himself.

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Lebanon

The world's most elusive terrorist

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Hizbullah's Imad Mughniya is dead, most probably

AP

Mughniya mugged

TO MOST of the world he was a vicious killer. To devotees of Hizbullah, Lebanon's Shia party-cum-militia, to their Iranian backers, and especially to those who came of age in the 1980s, during what they saw as wars of survival in Lebanon and Iran, he was a hero. Whatever the view of Imad Mughniya, the manner of his death, by a car bomb in Damascus on February 12th, was characteristic of the man.

Born to a poor family in south Lebanon in 1962, Mr Mughniya had, over a 25-year career, gained a reputation as both the most effective and elusive of international terrorists. As a street-hardened leader in radical Shia groups that eventually, under Iranian guidance, formed Hizbullah during Lebanon's civil war of 1975-90, he may be credited with introducing suicide bombing to the Middle East. It was used to deadly effect against the Iraqi, French and American embassies in Beirut, most notably with a lorry bomb that killed some 241 American Marines in 1983. Later Mr Mughniya was held responsible for the capture of dozens of Western hostages, who were traded in exchange for arms for his Iranian and Palestinian allies.

He went into hiding after his indictment for the murder in 1985 of an American serviceman during the hijack of a TWA airliner. Yet he was believed to have kept his post as a senior tactician for Hizbullah, acting as a liaison with Iran's Revolutionary Guards. He was also said to have helped bring in novel guerrilla techniques, such as the use of armour-piercing shaped charges in roadside bombs that harried Israeli forces in Lebanon until they withdrew in 2000 and were later used against American troops in Iraq.

The Israelis have linked him to bomb attacks against their embassy and a Jewish cultural centre in Buenos Aires in the 1990s, purportedly in revenge for Israel's killing of Hizbullah's then chief, Abbas Musawi. He may also have masterminded the kidnapping of two Israeli soldiers in 2006 which sparked a month-long war in Lebanon. Some CIA officials have also fingered Mr Mughniya for bombing an American barracks in Saudi Arabia in 1996, when 19 soldiers were killed.

Despite America's offer of a $5m reward, Mr Mughniya escaped numerous attempts to capture or assassinate him. One of his brothers perished in a car bomb in 1994 that was widely believed to have been an Israeli near-miss. Mr Mughniya's death has produced a wealth of speculation. “After a life of *jihad*, sacrifice and achievements, and with a longing for martyrdom, Islamic Resistance [ie, Hizbullah] leader Haj Imad Mughniya was assassinated at the hands of criminal Israelis,” read Hizbullah's statement. Others surmise that he may have been hit by Lebanese operatives working for the CIA or perhaps even by his Syrian hosts. Yet another theory holds that Mr Mughniya has not been killed at all but that the bombing has provided a clever way for him to go still deeper underground.

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Egypt

A bit more religious freedom

Feb 14th 2008 | CAIRO
From The Economist print edition

Apostasy need not necessarily be punished by death

TWENTY-SEVEN years ago, Egypt revised its secular constitution to enshrine Muslim *sharia* as “the principal source of legislation”. To most citizens, most of the time, that seeming contradiction—between secularism and religion—has not made much difference. Nine in ten Egyptians are Sunni Muslims and expect Islam to govern such things as marriage, divorce and inheritance. Nearly all the rest profess Christianity or Judaism, faiths recognised and protected in Islam. But to the small minority who embrace other faiths, or who have tried to leave Islam, it has, until lately, made an increasingly troubling difference.

Members of Egypt's 2,000-strong Bahai community, for instance, have found they cannot state their religion on the national identity cards that all Egyptians are obliged to produce to secure such things as driver's licences, bank accounts, social insurance and state schooling. Hundreds of Coptic Christians who have converted to Islam, often to escape the Orthodox sect's ban on divorce, find they cannot revert to their original faith. In some cases, children raised as Christians have discovered that, because a divorced parent converted to Islam, they too have become officially Muslim, and cannot claim otherwise.

Such restrictions on religious freedom are not directly a product of *sharia*, say human-rights campaigners, but rather of rigid interpretations of Islamic law by over-zealous officials. In their strict view, Bahai belief cannot be recognised as a legitimate faith, since it arose in the 19th century, long after Islam staked its claim to be the final revelation in a chain of prophecies beginning with Adam. Likewise, they brand any attempt to leave Islam, whatever the circumstances, as a form of apostasy, punishable by death.

But such views have lately been challenged. Last year Ali Gomaa, the Grand Mufti, who is the government's highest religious adviser, declared that nowhere in Islam's sacred texts did it say that apostasy need be punished in the present rather than by God in the afterlife. In the past month, Egyptian courts have issued two rulings that, while restricted in scope, should ease some bothersome strictures. Bahais may now leave the space for religion on their identity cards blank. Twelve former Christians won a lawsuit and may now return to their original faith, on condition that their identity documents note their previous adherence to Islam.

Small steps, perhaps, but they point the way towards freedom of choice and citizenship based on equal rights rather than membership of a privileged religion.

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African football

A happy taste of the future

Feb 14th 2008 | ACCRA
From The Economist print edition

African football gets a welcome boost

Reuters

The wrong team won but never mind

AS THE final whistle blew, the fan in a pharaoh outfit leapt from his seat and charged through the stand, an Egyptian flag billowing behind him. He was celebrating the sixth victory of his national team in football's Africa Cup of Nations after it had beaten Cameroon 1-0 to keep the title it had won in the previous tournament in 2006.

African football had never been under such a spotlight. Many of the continent's top players have become rich and famous in Europe's top leagues, especially in England and France. South Africa is preparing to hold the World Cup in 2010. So Ghana, as hosts of this year's African Cup, got the kind of global media coverage often reserved for African wars and calamities.

Ghanaians counted the tournament a success, though their team was knocked out in the semi-finals. Gloomsters predicted administrative chaos, with everything from stadiums to roads not being ready on time. In the event, some of the organisation was ropey, but there were no overwhelming logistical problems, no riots, no crowd crushes, no hooliganism and no witch doctors cursing opponents—all problems that had marred previous tournaments. Some visitors smirked at the long grass on the pitch in one opening match. Others noted accusations of attempted match-fixing. Some of the teams' hotels, particularly in a northern city, Tamale, were shoddy, and all were absurdly expensive. But the tournament was rightly hailed for its fine football and fine sportsmanship.

It was sad that some matches were played in near-empty stadiums because many fans were too poor to afford the cost of travel, tickets and hotels. Even for the final the stadium filled up only in the second half. Matches involving Ghana were over-subscribed, with large corporate ticket allocations taking up many of the seats. Most Ghanaians earn less than $1.25 a day, so they watched the games huddled in front of small televisions or in “fan parks”, unable to pay the black-market prices demanded by gangs of touts charging at least $20 for the cheapest seats.

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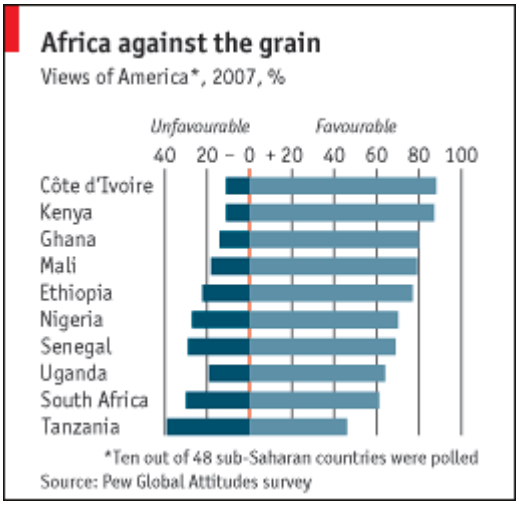
America in Africa

Doing good, quietly

Feb 14th 2008 | WASHINGTON, DC
From The Economist print edition

George Bush has a better record in Africa than many people realise



AMERICA'S president has his critics south of the Sahara. Zapiro, a leading South African cartoonist, has depicted George Bush responding to bird flu by bombing Turkey and the Canary Isles, and has shown doctors finding his brain during a colonoscopy. But as Mr Bush embarks on a five-country tour of Africa this week, he can point to more successes than critics give him credit for.

Mr Bush and his wife will visit Benin, Ghana, Liberia, Rwanda and Tanzania. None of these countries has been much in the world news of late, a sure sign that all are quietly doing better. Benin, Ghana and Tanzania seem stable and are democratic. Liberia is at peace. Rwanda's government is autocratic but a lot better than the genocidal regime that preceded it, and has made progress in fighting AIDS.

Mr Bush is justly chided for backing anti-AIDS programmes that advocate only sexual abstinence, an approach that seldom works. What his critics forget is that this is only a small part of a huge effort to curb the epidemic. The American government is probably the world's largest supplier of condoms to Africa. By the end of its first five-year phase, in September, the President's Emergency Plan for AIDS Relief, better known as PEPFAR, will have spent $18.8 billion, mainly in Africa. Mr Bush has asked Congress for another hefty $30 billion over the next five years to tackle AIDS in poor countries. At least 1m Africans get life-preserving antiretroviral drugs largely thanks to Uncle Sam.

America helps Africa in other ways, too. It supplies millions with anti-malarial bednets or drugs. It has written off a lot of debt and pushed for open trade. And Mr Bush takes an original approach to aid. His Millennium Challenge Corporation (MCC) gives poor countries money if they can come up with a good plan for what to do with it. This allows aid recipients to set their own priorities. Other donors usually insist that their largesse be spent on health or education. Fair enough, but America allows them to tackle less fashionable ills such as bad roads and sanitation, and to do so in a way that fosters initiative rather than dependency. The MCC has been slow to disburse cash, partly because of bureaucratic foul-ups in Washington but mostly because its remit is so ambitious and some African countries have struggled to draw up plausible plans for how to spend the money.

Mr Bush also wants to highlight African successes. Before the cold war ended, only three small African countries were proper democracies: Botswana, Mauritius and Senegal. Now a good score of them probably qualify. In the 1980s, most African countries had bad economic policies. Now inflation is low nearly everywhere bar Zimbabwe (where it is 150,000%) and nearly every African country not at war is growing quite fast. Over the past four years, sub-Saharan Africa's growth rate has been around 6% a year.

It is violence, of course, that captures headlines, and Mr Bush is finding it hard to help calm Africa's troublespots. His administration sent muddled signals at the start of Kenya's current crisis but is now working hard to talk Kenya's politicians back from the precipice. America played a big role in ending the war between north and south Sudan, but its efforts to douse the flames in Darfur have yet to succeed. America's reputation in sub-Saharan Africa has held up much better than elsewhere in the world. According to a Pew Global Attitudes survey last year, a big majority of people in nine out of ten African countries polled still like America.

Moreover, savvy Africans know that any American president is a useful ally. Liberia's president, Ellen Johnson-Sirleaf, is lobbying hard for the Pentagon to put the headquarters of its Africa Command

(AFRICOM) in her country, not least because it would make it much harder for ragtag rebels to mount another coup. But several other African countries are keen to bid for it too.

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South Africa's economy

Tighten your belt

Feb 14th 2008 | JOHANNESBURG
From The Economist print edition

South Africans must brace for harder times ahead

Get article background

DURING his annual state-of-the-nation speech earlier this month, President Thabo Mbeki acknowledged that many South Africans feel glum. Besides political uncertainty and some high-level corruption cases, people are now worrying about the economy. The Chamber of Commerce and Industry's latest survey shows that business confidence has slumped to levels last seen in 2003. Another poll near the end of last year, by Ipsos Markinor, revealed that just under half of South Africans thought the government was managing the economy well, a drop of 17 percentage points in a year. Last month's power cuts have also dented confidence.

Reuters

The dawn of a new era for job seekers?

Virtually all analysts reckon that the economy, after growing by an average of 5% or so in the past four years, will slow down this year. The government has announced that occasional blackouts will be necessary until July, when a plan that includes rationing and incentives to use less electricity kicks in. Blackouts forced mines to stop operating for a few days last month and have also hit manufacturing hard. But Standard Bank, one of the largest financial institutions, notes that sectors that do most to spur growth—services, wholesale and retail trade and construction—depend less on electricity than do manufacturing and mining.

But blackouts are not the only problem. The steady rise of interest rates, by four percentage points since April 2005, has hit businesses and also consumers, whose enthusiastic spending has sustained growth. The central bank has stepped on the brake to try to bring inflation, pushed up to 8.6% in December by rising oil and food prices, back into the 3-6% target band it left last April. But more expensive borrowing is flattening the sales of cars, houses and durable goods, as well as investment.

The weakening global economy, driven by fears of a recession in the United States, is also slowing growth. The international credit crisis has dampened investors' enthusiasm for riskier emerging markets, and South Africa's electrical uncertainties and the change of guard in the ruling African National Congress have not reassured them. According to the Bureau for Economic Research, a local think-tank, foreigners were net sellers of South African equity and bonds to the tune of 33.3 billion rand ($4.3 billion) in the three months to the end of January, and the financial exodus accelerated sharply in the week after the mines' closure. This foreign money is much needed to finance the current-account deficit, which widened to 8.1% of GDP in last year's third quarter.

With foreigners selling their South African assets, the rand is taking a knock. Its value against the dollar has depreciated by about 20% since late October. A weaker rand might give exports a much-needed boost. But the manufacturing sector has little spare capacity, and high interest rates and scarce power may deter the investment needed to raise production.

So how fast is the economy likely to slow? The gloomiest prophets are talking of a recession, but most predictions are for growth this year of 3-4%, if the power crisis is handled well. Standard Bank reckons it could still reach 4.3%. Whatever the figure, it will be less than the 6% the government says it needs to halve unemployment and poverty by 2014.

This is not good news, especially for the millions of poor and unemployed already hit by the rising prices of food and transport. But South Africa has weathered downturns and currency knocks before. It is in much better shape to withstand the blow, thanks to prudent macroeconomic policy. The budget has been in surplus, government debt has melted to about 30% of GDP, and foreign-exchange reserves have more than doubled since 2004. Mr Mbeki has called on South Africans to unite to meet the country's challenges. But plenty are packing their bags.

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Europe's economies

Dangers ahead

Feb 14th 2008
From The Economist print edition

Despite the gloating over America's troubles, the euro area looks increasingly fragile—and weakening domestic demand is largely responsible

Illustration by Peter Schrank

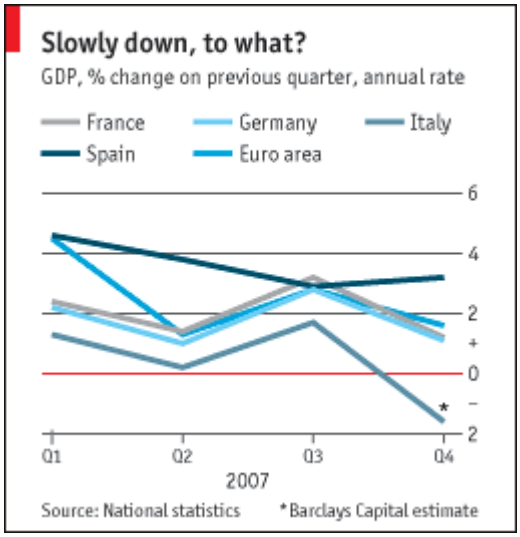
THERE are few who truly believe any longer that Europe's economies can shrug off bad news from elsewhere. Jean-Claude Trichet, head of the European Central Bank (ECB), now concedes that gloom in America must darken the euro area's prospects. Exporters hit by the strength of the euro cannot but find it harder when their second-largest market (America) turns down, especially as the largest (Britain) is slowing too. Yet politicians and central bankers are reluctant to admit to home-grown frailties. Their ritual invocation of Europe's “sound fundamentals” and “lack of imbalances” seems like wishful thinking—or complacency.

The facts suggest that Europe is not weathering the global financial storms well. Figures released on February 14th reveal that the euro-area economy slowed abruptly at the end of 2007. GDP rose by only 1.6% at an annual rate in the fourth quarter—stronger than in America, admittedly, but still a lot slower than before. GDP growth in the two biggest economies, Germany and France, was weaker than the euro-area average. And though figures for Italy are not yet out, economists at Barclays Capital reckon its economy shrank. Economic activity across Europe seems to have slowed further at the start of the year.

What is worrying is that Europe's lost pep owes more to sagging demand at home than to crumbling exports. A full breakdown of the fourth quarter is not yet available, but it is expected to show that consumer spending was sluggish at best. Retail sales fell by 1% over the previous quarter. In Germany, where hopes of a consumer revival have often been dashed, sales crashed by 3%. Behind these grim figures stand increasingly nervous shoppers. The European Commission's gauge of consumer confidence has fallen by ten percentage points since July 2007, the sharpest drop since early 2003. Borrowing by households has slowed sharply, partly because of earlier interest-rate rises but partly also because troubled banks have become far fussier about their lending.

Such fragility is at odds with claims that Europe's economy has

the domestic firepower to withstand a recession in America. Indeed, the parts of the economy that are most exposed to non-euro-zone demand are doing better than those that rely on domestic spending. An index of manufacturing based on a survey of purchasing managers edged up in January. But the gauge for service industries plunged to only just above 50, the point at which more managers report a fall than a rise in activity. Individual readings in Germany, Italy and Spain were all below that level. Much of the weakness, particularly in Spain, is down to struggling firms in property and finance, which suggests that the credit crunch and the deflating house-price bubble are taking a broader toll.



All this points to an economy that is faltering not because of slowing export demand but because European consumers are suddenly less willing to spend. Such caution may seem excessive. After all, the jobs market is still firm: euro-area unemployment recently dropped to 7.2%, the lowest for a generation. Europeans routinely save a larger share of their incomes than people in America or Britain, so household finances are less stretched in most euro-area countries. Yet consumers still have plenty of reasons for anxiety.

Foremost is stubborn inflation. Rising oil and food prices keep eroding consumers' spending power. Euro-area inflation picked up to 3.2% in January, its highest since the euro was launched in 1999. And although lots of jobs have been created in recent years, real wages have stood still. The OECD, a rich-country think-tank, reckons that average private-sector pay in the euro area rose by 2.4% last year. That was a small pick-up on 2006, but still barely enough to keep up with prices. The escalating cost of living has become a topic of widespread political debate.

Everywhere housing markets are slowing, even if prices are falling outright only in Ireland and Germany. This slowdown, along with recent volatility in stockmarkets, has made consumers jittery, believes Julian Callow at Barclays Capital. Wobbly asset values, high inflation and a buoyant jobs market are typical late in the business cycle, appearing just as economies slow down. “It's as if consumers can sense an earthquake coming,” says Mr Callow.

The seismic warning has not gone unnoticed by the ECB. In interviews last weekend, Mr Trichet confirmed that the ECB thinks the risks to the economy now “lie on the downside”. It has stopped hinting about the possibility of an interest-rate increase. Yet concerns that inflation may persist well above the 2% upper limit of the ECB's target range mean that it is not ready to ease monetary policy just yet.

In any case, because consumers are anxious about rising prices, a cut in interest rates might not boost confidence. Some of today's inflation may be transitory—the “core” rate, which excludes energy, food, alcohol and tobacco, is only 1.9%—but the euro area's well-known rigidities mean that prices and wages are less responsive to a slowdown than in America and Britain. In recent years inflation in the euro area has been above 2% more often than below it. Still, the markets are betting that the ECB will cut rates soon, as it did in similar circumstances in 2001.

There is scope in some countries for a fiscal boost too. Spain and Ireland, where demand is likely to be hardest hit by the housing and credit slowdown, have the advantage of running budget surpluses of around 2% of GDP. Last year's VAT increase helped Germany balance its books and even make room for modest cuts in corporate and payroll taxes this year. But other big countries have less room for manoeuvre. France cut taxes sharply last year; its budget deficit, like Italy's (and Britain's), is already above 2% of GDP.

The euro area may also suffer from an imminent slowdown in eastern Europe, which has been a useful source of demand but where several economies look newly vulnerable (see article). One consolation may be that the euro seems to have stabilised against the dollar; fears of a dollar rout have eased, at least for now. It is the apparent fragility of the domestic economy that is the biggest headache now. Much will depend on whether traditionally thrifty German consumers, who were least affected by rising house prices and who shun credit, can make up for weaker demand elsewhere in the region. The signs so far are not encouraging.

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Eastern Europe's economies

Coming in to land

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The east Europeans swap one economic problem for another

ORTHODOX economics suggests that big current-account deficits, high inflation and fixed exchange rates are a lethal combination. But after a scary year, the east European countries that looked most likely to tumble seem to be heading for a softish landing. In Estonia growth has dropped from double digits to a mere 4.5%. In Latvia retail sales, rising by as much as 25% last summer, are growing by only 10%. The foreign banks that own most of the financial system in both countries have tightened lending. Even if some housing borrowers default, the pain is manageable.

The European Commission continues to fret, particularly about Latvia. It gave warning this week of a "hard landing" if the government does not tighten fiscal policy again. But Neil Shearing of Capital Economics in London says that only the collapse of a big bank in the Baltics could prompt a crisis that would break the local currencies' peg to the euro.

Most other countries in the region have floating exchange rates. Many have raised interest rates recently—by a full percentage point in Romania—to head off inflation. Price rises endanger both competitiveness and their chances of adopting the euro. Hungary has the lowest growth and the highest inflation in central Europe; its currency, the forint, has been sliding. "If America has stagflation-lite, Hungary has stagflation-heavy," says Mr Shearing.

Markets are proving remarkably tolerant of the east Europeans' diminished zeal for reform after their rush to membership of the European Union. With labour costs still a small fraction of the euro area's, the prospects for growth look good on the surface. But worries about longer-term competitiveness are growing. Employment rates are still low—at 50%, Poland's is the second-lowest of any economy in the EU. But like its predecessor, the centre-right government in Warsaw shows little appetite for painful structural reforms.

The most solid prospect in the region now is Slovakia, thanks to the rigorous (and unpopular) policies of the previous government. Slovakia hopes to adopt the euro in 2009; the EU is scrutinising the figures now and will give its verdict in April. Soaring foreign investment and strong growth have stoked tax revenues, cutting the budget deficit. Slovakia's problem is inflation. It should fall to 2.7% this year, which is tiny by other countries' standards, and comfortably under the EU's target for euro membership—but it reflects artificial (and unsustainable) one-off controls on energy prices.

Countries that have pegged their currencies to the euro, or are shadowing it, lose their independence in monetary policy without gaining all the benefits. Willem Buiter, a former chief economist at the European Bank for Reconstruction and Development, thinks some would do better to adopt the euro unilaterally. The European Central Bank and European Commission would hate this, but they could not stop it, he argues.

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Turkey and Islam

Veils of half-truth

Feb 14th 2008 | ISTANBUL
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What lies behind the row over lifting the headscarf ban in universities

Get article background

TO TURKEY'S secular elite it is a step back to the dark ages; to its conservatives, an overdue right. Either way, the constitutional changes approved by parliament to ease the ban on the wearing of the Muslim headscarf in universities will trigger a new battle between the mildly Islamist prime minister, Recep Tayyip Erdogan, and his secular opponents.

Scores of university heads have declared they will ignore the changes, although they were approved by a big parliamentary majority on February 9th. Tens of thousands of Turks have taken to the streets in protest. The opposition leader, Deniz Baykal, promises to go to the constitutional court, arguing that the measures contravene constitutional guarantees of secularism. The court may rule in his favour, as it did in a dispute about the Turkish presidency last May. In any case, before the measures take effect the government has to change more specific rules about garb on campuses. Some doomsayers predict the sort of violence that flared between leftist students and nationalists and Islamists in the 1970s.

Mr Erdogan's Justice and Development (AK) party has been under pressure from its base to scrap the headscarf restriction, which was imposed only in the 1990s, ever since it came to power in 2002. Polls show that most Turks favour lifting the ban for university students. Even the country's generals have remained silent, for a change. So what is all the fuss about?

One answer is that the battle over headscarves is not really about religion at all. Rather it is a power struggle between a rising class of observant Turks from the Anatolian hinterland and an entrenched elite of secular “white” Turks, backed by the generals and the judiciary. “Women with scarves used to be our maids, now they have become our neighbours,” sniffs one Istanbul socialite.

But snobbery and power are only part of the story. The headscarf debate reflects a clash between tradition and modernity as much as one between Islam and democracy. Many Westernised, middle-class Turks, especially women, fear for their lifestyle. They cite government plans to ban the showing of alcohol on television as another example of creeping conservatism. It did not help when one AK member of parliament crowed that, after getting the headscarf into universities, government offices would be next.

Even headscarf campaigners complain that they knew nothing about the government's plans. Some believe they were designed merely to win votes in the local elections due next year. If the AK were serious about bolstering equality between the sexes, “there would be more than one woman in the cabinet,” says one AK-supporting lady. And if letting women cover their heads were a matter of rights, as Mr Erdogan claims, why has the government not scrapped Article 301 of the penal code, which criminalises free speech? (Its most recent victim is Atilla Yayla, a liberal academic, given a suspended three-year jail sentence for calling Ataturk “that man”.) The government is also dragging its feet on European Union demands to make it easier for non-Muslim minorities to reclaim properties confiscated by the state.

One reason for this, some suggest, is that the AK government needed to placate a small far-right party whose support it needed in parliament to secure a two-thirds majority on the headscarf. At all events, Mr Erdogan's waning interest in joining the EU has led to growing disenchantment among his liberal supporters. Their problem is that they have nowhere else to turn. Mr Baykal, who purports to stand for Ataturk and modernity, is among the country's most strident opponents of EU-imposed reforms. Despite losing three elections within the space of a decade, he remains firmly in position.

The bigger worry is that Turkey has not yet devised a system of checks and balances that can protect the

rights of all individuals, be they secular or pious, Turks or Kurds. As Abdullah Gul, the pro-European Turkish president, argued this week, EU membership could offer a panacea for Turkey's ills. If only Mr Erdogan (and existing EU members) would agree.

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Kosovo's independence

A state is born. Or so say some

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Neither Russia nor Serbia will recognise the new Kosovo

ACROSS Kosovo few can believe that they are on the brink of independence. This is the moment most Kosovars have longed for ever since the break-up of Yugoslavia in the early 1990s. Some 90% of Kosovo's 2m people are ethnic Albanians. Agron Bajrami, editor of the newspaper *Koha Ditore*, says there have been so many disappointments that they will celebrate independence only when it happens.

Ever since the end of NATO's war in 1999 Kosovo has been under the jurisdiction of the United Nations, although formally remaining part of Serbia. Now it is preparing to declare independence on either February 17th or 18th. A huge new European Union mission is ready to move in to help run the place. So far Ban Ki-moon, the UN secretary-general, who is under pressure from Russia to resist independence, has adopted a strategy of doing nothing. But UN officials in Kosovo have been told that once independence is declared, Mr Ban will decree that the situation on the ground has changed and that their mission has outlived its usefulness. They will then be withdrawn, to be replaced by an EU mission.

AFP

It's the real thing this time

Russia will make sure that Kosovo cannot join the UN. Serbia too will be furious and take as yet unspecified measures to undermine the new country. An assembly is planned in the Serbian-controlled north of Kosovo, in which parallel Serbian institutions will be formalised to run Serb bits of the country. For years Serbia's leaders have warned the West that Kosovo's independence would mean there would be two Albanian states in Europe. Now, scoffs one diplomat in Pristina, “we are going to get two Kosovos instead.”

The fall-out from the declaration will be huge. Serbia will declare it null and void. Russia may table a UN Security Council resolution to the same effect, although America, Britain and France will block it. On the ground, violence is not expected but cannot be ruled out. The Serb-controlled north of Kosovo is already run as part of Serbia, as are bigger enclaves elsewhere. But fear is palpable in smaller Serb-inhabited villages.

Bratislav Kostic, leader of one such place, Gojbulja, complains that he has received no instructions from Serbian officials about what to do. He fears that if protests get out of hand in northern Kosovo and ethnic Albanians have to flee, Gojbulja's Serbs may be the first to be expelled by Albanians in revenge. With America and most EU countries lining up to recognise a new Kosovo, the last thing its leaders will want is to see their moment of glory marred by scenes of Serbs in flight.

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Spain's election

Rivals in profligacy

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Spain's parties vie to offer voters ever bigger tax cuts and spending pledges

IT IS fitting that bonanza is a Spanish word, as Spain's voters are experiencing one, in an orgy of tax-cutting promises. Curiously, it coincides with the election on March 9th. The ruling Socialists and their People's Party (PP) opponents, it seems, just cannot give stuff away fast enough.

The prime minister, José Luis Rodríguez Zapatero, kicked off last summer with his “baby cheques”, worth €2,500-3,500 ($3,650-5,100) per new-born child. His PP rival, Mariano Rajoy, then pledged to take 7m low earners out of income tax and give working women a special tax cut. The Socialists hit back by scrapping the “patrimony tax”, a wealth tax on personal assets that is unpopular with middle-class voters; they now promise to take €400 a year off 13.5m people's income-tax bills.

Each side accuses the other of buying votes. Each offers the same defence, claiming that they are trying to boost the economy as Spain's property bubble bursts, global markets get nervous and unemployment jumps. Both accusations and defences have some validity.

Tax cuts could pump €6 billion-16 billion a year into the pockets of taxpayers. That would be a boon, for after ten years in which the economy grew by over 3% a year, growth this year is likely to fall to 2.4% (say the optimists) or even below 2% (the pessimists). Last year's budget surplus was worth over 2% of GDP. Prudent housekeeping, Mr Zapatero asserts, means there is money to spend from the piggy-bank. The PP, meanwhile, likes to hark back to tax cuts when it ran Spain in the late 1990s. Within two years, growth had pushed income-tax receipts up, not down.

Other piggy-banks are also being raided. Spain's social-security system has been boosted by a rise in the workforce, thanks to the arrival of almost 4m immigrants in the past seven years. Both parties want to dip into this pot: Mr Rajoy promises to raise the minimum monthly pension from €493 to over €650; Mr Zapatero wants to push it up to €700.

Voters may be forgiven some confusion, as the electoral bonanza blurs differences between left and right. Tax cuts will stimulate the economy and return resources to citizens, argues the supposedly leftish Mr Zapatero. Increased spending on pensions is just, necessary and possible, says the conservative Mr Rajoy. Some voters may conclude that, whoever wins on March 9th, they cannot lose.

Yet not all will gain. It is hard to restore fiscal prudence after a fit of indulgence. And unemployment is now a big worry, as construction firms and estate agencies fall over themselves to lay off staff. In January state unemployment offices reported a monthly leap in jobless figures of 132,378. Overall unemployment is modest by past standards, at 8.6%. But *El País* says that January's rise was the biggest in three decades. The unemployed will benefit neither from tax cuts nor from pension rises. They can only pray that a cash injection into the economy creates new jobs.

Mr Zapatero, who has a narrow lead of some three points in most opinion polls, is also praying—for no more bad economic news before March 9th. Otherwise he too may be out of a job.

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Russia and its history

A Byzantine sermon

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The drawing of inaccurate historical parallels with Constantinople

WHEN Nikolai Patrushev, head of Russia's federal security service (FSB), spoke to his staff to mark the 90th anniversary of the Soviet secret service last year, he made an odd historic diversion. “Those who study history know that security existed before. Sophia Paleologue married Ivan III, and being a niece of the last Byzantine emperor, paid close attention to questions of security.” Few understood what he was talking about.

The mystery was cleared up a few weeks later, when Russia's state television channel aired an hour-long film, “The Destruction of the Empire: a Byzantine Lesson”. It proved so popular that the channel repeated it and added a 45-minute discussion concluding that Russia could exist only as an Orthodox empire. The author and narrator of the film is Father Tikhon Shevkunov, reputedly the confessor of Vladimir Putin. In recent weeks the film has become one of the most talked-about in Moscow.

Russian rulers often appeal to history to justify their actions. Mr Putin revealed his interest in history from the start of his presidency, when he restored Stalin's anthem as a national hymn. Last year he promoted a school textbook justifying Stalin's brutal rule as a necessary evil. When other ex-Soviet republics commemorate Soviet brutalities, Russia treats this as a distortion of history. This week the foreign ministry held a meeting behind closed doors on the subject of “Counteracting the falsification of history aimed against Russia: a task of national importance”.

In the minds and language of the ex-spooks who dominate Russia, history is a powerful tool. The television film seems to be in that genre. In it, Father Tikhon is transported in full attire from a snow-swept church to Istanbul and Venice, where he exposes the West as a “genetic” hater of both Byzantium and its spiritual heir: Russia. The Byzantine empire's rich and cultured capital, Constantinople, was the envy of dark and aggressive barbarians from the West, who looted it during the fourth crusade in 1204. Modern Western capitalism, argues Father Tikhon, is built on Byzantine loot and Jewish usury.

In this version, Byzantium's first mistake was to trust the West (represented in the film by a cloaked figure in a sinister, long-nosed Venetian mask) and surrender the commanding heights of the economy—trading and customs collection—to Western entrepreneurs and greedy oligarchs. Using a term from today's Russia, Father Tikhon talks of some “stabilisation fund” when describing the achievements of one Byzantine emperor, Basil II, godfather to Russia's Prince Vladimir, who crushed separatists and sent oligarchs to prison. But even great emperors could have weak successors. (The film was made before Mr Putin chose Dmitry Medvedev as his successor, to be endorsed by voters in the election on March 2nd.)

The film's usage of modern words and imagery is so conspicuous that the moral cannot escape a Russian viewer. Instead of sticking to its traditions, Byzantium tried to reform and modernise, as the West demanded, and it paid the price. Worst of all, the West infiltrated Byzantium with harmful, individualistic ideas, which destroyed the core values of the empire—so the people lost faith in their rulers.

Sergei Ivanov, Russia's leading scholar on Byzantium, says all this lumps together a 1,000-year history of Byzantium and crudely extrapolates the result to today's Russia. In fact, the film has little to do with the true history of Byzantium. But neither history nor the values of the Orthodox faith are its real object. In the absence of any new ideology, it manipulates a story of Byzantium to justify Russia's anti-Westernism and xenophobia in a 1,000-year history. The film also carries an implicit message to Mr Putin: do not listen to the West, stay in power, close off the country.

It is of little concern to Father Tikhon, or to Russian state television, that the Russian empire gained most when it opened up to the West, not when it fenced itself off. Byzantium was always the source of Orthodox faith for Russia, but few Russian tsars looked to Byzantium as a political model. It was for good reason that they called Moscow a third Rome, not a second Constantinople. It fell to Stalin to revive

Byzantine studies, along with the idea of imperialism, says Father Tikhon, approvingly. “He knew whom to learn from.” But the danger of manipulating history in this way is that its tragedies may recur.

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Charlemagne

Farm follies revisited

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A row about milk quotas only confirms the idiocy of Europe's common agricultural policy

Illustration by Peter Schrank

AT LAST, say some European Union leaders, it is time for tough talk about the future of farming. Even the subsidy-mad French agree: a mid-term review of the common agricultural policy (CAP) is to begin during their stint in the EU's rotating presidency, later this year. It all sounds encouraging. Except for this: even as governments boast of tackling difficult reforms soon, France, Germany and others are trying to thwart an easy reform now that would let EU dairy farmers take advantage of soaring world prices. The row centres on the EU's milk quotas, which cap production in each country, with swingeing fines for producing too much. It offers a revealing, and depressing, case study.

There may never be a less painful time to ease (or scrap) milk quotas. They were designed in 1984, when low market prices and high subsidies were filling EU warehouses with surplus “butter mountains” and mounds of milk powder, at ever greater cost to the EU budget. Liberal-minded types wondered naively if cutting subsidies might be an idea. They were outvoted by the farm lobby, which chose to curb production via quotas so as to boost prices. As an instrument, it was blunt—but it worked.

Today, the conditions of 1984 are reversed. Steady growth in demand for cheese, yogurt and so on, whether in Europe or Asia, has pushed up world prices (with some wild spikes last year). Surpluses are long gone: last year the EU undershot its milk quotas by about 2m tonnes. But because quotas cannot be traded between EU countries, go-ahead farmers in places ideally suited to dairy farming—the coastal areas of north-western Europe, such as the Netherlands, Denmark or Poland—cannot produce as much as they would like.

That does not worry those who see only today's high prices for their dairymen. But Gerrit Meester, a Dutch farm official in The Hague, calls the situation unsustainable. The EU is acting like a would-be “OPEC of the milk market”, he says, referring to the oil producers' cartel. But OPEC had a bigger share of the world market; and even its price-gouging lured new rivals into production. “That is the risk we take in the EU,” says Mr Meester, pointing to Europe's falling share of world dairy markets. If Europe does not act “more intelligently”, rivals such as Brazil, Argentina and America will continue to ramp up production.

Each EU member sets its own rules for handing out quotas. Some allow farmers to trade and rent them, others dole them out to favoured groups such as young farmers, farmers in disadvantaged regions or (officials allege) political supporters. To dairymen in less profitable places, like the Bavarian hills, the Alps or chilly northern Finland, only the quota system can guarantee high enough prices to keep them in

business. Quotas are due to expire in 2015, according to the latest in a string of political compromises. Their fans will not hear of scrapping them earlier. Absurdly, even a modest proposal by the European Commission to raise quotas by just 2% in April has met stiff resistance from France, Germany, Austria and Finland.

Perverse effects abound. German farmers from the plains of Schleswig-Holstein would “love to see no quotas”, says an official. Yet the German government is resisting reform. This is said to be because the German farm minister is both ambitious and from Bavaria, a hilly place with lots of small farms. France fell far short of its quota last year, thanks in part to a system of state planning that ties quotas to individual regions, to prevent concentration of the industry in profitable areas. In practice, this means that frustrated dairy farmers in Brittany and Normandy cannot expand, while quotas languish unused in other regions. French officials proudly proclaim that EU quotas are the reason that milk is still produced in every corner of France.

This is all especially pleasing to Michel Barnier, the French agriculture minister. He is from the Alps, and likes to say that one EU priority must be to save European palates from industrial, “aseptic” food. One Eurocrat says more bluntly that the French have “decided to save mountain farmers by kicking farmers in Brittany”. And while gourmet France under-produces, industrial America has been “flooding” world dairy markets, he adds: perhaps not the outcome France had in mind.

How to create a lobby group

It is an EU rule that unintended consequences, left for a few years, fossilise into special interests. The Dutch, who sell most of their milk abroad (largely in the form of cheese), want to liberalise the dairy trade. But even in the Netherlands, milk quotas benefit some. Older Dutch dairy farmers may hold quotas worth €1m, which they can sell when they retire. The financial impact on these folk would make it politically hard to scrap quotas overnight, say Dutch farm officials, even if it would help younger farmers, for whom quotas are a big disincentive. “The quota system was never meant to be a retirement scheme, but it has worked out that way,” says an official.

The 2% quota increase will probably go through next month, even though the camp led by France says that the EU should wait to discuss it along with other CAP reforms under the French presidency (delaying any change by at least another year). The go-slow camp can probably be bought off with promises of extra money for small farmers or mountain herds.

In truth, even liberal countries such as the Netherlands have no objection to subsidies for preserving pretty (but uneconomic) landscapes or animal welfare. Siem-Jan Schenk, a dairy boss at the Dutch farmers' union, LTO, says that “the direction we are going in is to say to France or Bavaria, give us the freedom to expand, and you will have instruments to protect production for the good of society.” Freedom for all, in return for subsidies for farmers who yodel or wear lederhosen. It sounds like a fair exchange. So why must Europe wait seven years to implement it? That, it seems, is a political question too tough for EU governments to answer any time soon.

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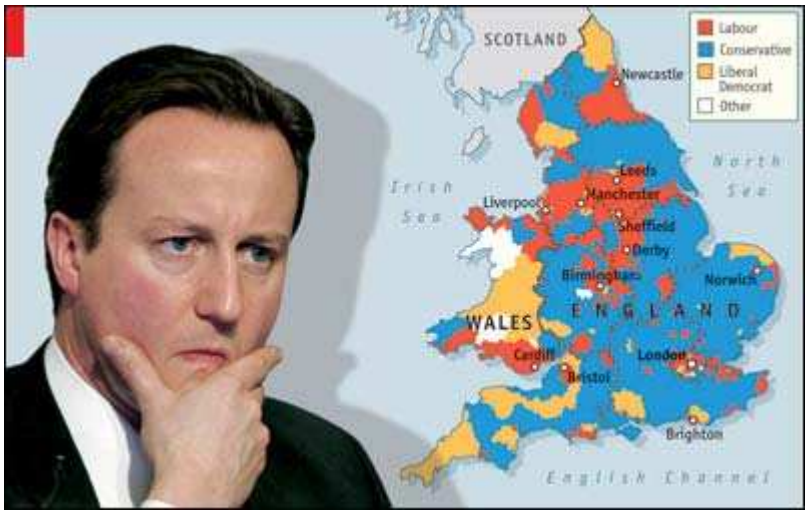
Political manoeuvres

The need for speed

Feb 14th 2008 | MANCHESTER
From The Economist print edition



The momentum behind the Tories is not what it was

THE statue of John Bright, a Victorian champion of free trade, outside Manchester's magnificent town hall suggests a city enthusiastic about the market. The well-groomed professionals taking lunch-breaks from the service-sector jobs that dominate what was the world's first industrial city are not obvious socialists either.

Yet Manchester, like most of the urban north, has been enemy turf for the party of business in recent times. In 1987 the Conservatives had 39 MPs in the densely populated areas around Birmingham, Manchester, Liverpool, Leeds, Sheffield and Newcastle (see map). They now have just five, and they have been relegated to third place in many seats.

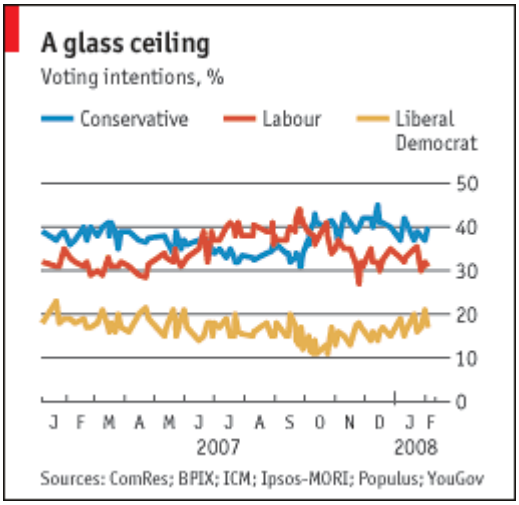
But Rob Adlard, head of the Manchester Conservative Association, is optimistic. The party has set up a northern board, headed by William Hague, the Yorkshire-born shadow foreign secretary, to improve campaigning in these regions. Money raised in the north now stays there instead of being sent to party headquarters.

There is also progress on the ground. The Tories have their first councillor on Manchester City Council (Faraz Bhatti, a former Liberal Democrat, defected in January), and Mr Adlard, who is running in the city-centre ward, is confident of joining him in May's local elections. The party's performance in greater Manchester is improving too. It controls Trafford Council, is gaining councillors in Salford and has a good chance of winning parliamentary seats such as Bolton West and Bury South.

Yet many blame an inability to resonate much beyond their southern heartland for the Tories' failure to extend their lead over Labour: the most recent ICM poll puts Tory support north of the Midlands at just 27%. Double-digit poll leads before Christmas have fallen to single digits (see chart). The strong momentum that has propelled David Cameron, the Conservative leader, since early October looks in danger of flagging.

Some of this is due to the government's own efforts to recover from a horrendous autumn, when the botched handling of speculation about a snap election, the loss of the personal data of 25m people and a series of party-funding scandals kicked the legs out from under its poll rating. Gordon Brown has drafted

promising young ministers into his cabinet and strengthened his own backroom team with a new chief of staff and head of communications. And by embracing public-service reforms about which he used to sound ambiguous (he made a bold speech in favour of health-care reform in January), he has begun to give his government the sense of direction it lacked. Mishaps over tax policy (see article) have not yet dragged him seriously off course.



Yet some Tories blame their party's political strategy for their apparent lack of momentum. Conservative Home, an online forum frequented by Tory activists and elites alike, points to an emerging split within the party: “hares” urge more active and radically conservative opposition to the government, whereas “tortoises” favour caution, on the assumption that the government will defeat itself. Tim Montgomerie, a former party official who founded the website, says voters want “a change of direction not just a change of management”. Without a clear idea of how a Tory government would differ from Mr Brown's, voters disillusioned with Labour may plump for the Lib Dems (whose new leader, Nick Clegg, has helped engender a slight blip in support) or stay at home.

Tax is a crucial issue for the hares—they want the Tories to jettison their pledge to match Labour's spending plans in order to create room for promises of tax cuts. They argue that the surge in Tory support towards the end of 2007 began with the promise by George Osborne, the shadow chancellor (whom they claim as one of their own), to cut inheritance taxes. Tortoises, towards whom Mr Cameron is thought to lean, retort that the pledge worked only because it was offset by commitments to raise tax elsewhere—it was not the kind of overall cut that the Tories had offered the electorate unsuccessfully at the previous two general elections.

Public-service reform is another bone of contention. Hares are cheered by the party's emerging education policy, which offers the prospect of greater choice and competition, but deplore its health-care proposals as timid and soft on doctors. Cautious souls reply that the National Health Service, a Labour invention, is uniquely difficult ground for the Tories; their radical “patient's passport” voucher system flopped at the 2005 election.

Of course, other factors also help to explain the Conservatives' current sluggishness in the polls. Their strong showing in the 18 months after Mr Cameron—the party's first “posh” leader in 40 years—took over in December 2005 was seen as proof that class resentment in Britain had ended. That judgment may have been premature: the Tories' failure to score consistently much above 40% to Labour's low 30s prompts suggestions that class imposes a glass ceiling on the party after all, and that northern voters in particular are unable to connect with it. Other Tory-watchers point to a problem of personnel—few Conservative MPs beyond the top half-dozen or so shadow-cabinet members can be said to be both especially able and loyal to Mr Cameron's centrist creed.

Yet there is little to be done about these obstacles. Etonian though he may be, Mr Cameron is the best leader the Tories have had since they entered opposition in 1997. Widening the party's talent pool is a long slog. It is surely possible to develop a plan to respond to Mr Brown's partial rehabilitation—tortoise-like in content to avoid abandoning the centre ground but hare-like in activity to dominate the headlines. With an election conceivably little more than a year away, the Tories cannot afford to take their time.

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Taxing rich foreigners

What did you do in the non-dom wars?

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From The Economist print edition

Bumbling officials are blamed for a sloppy attempt at reform

APPEARING incompetent rather than weak would, you might imagine, be something of a Pyrrhic victory in politics. Yet the chancellor of the exchequer, Alistair Darling, chose the former over the latter with alacrity on February 12th when he backed away from the most contentious of his plans to tax rich foreigners living in Britain. Calling the retreat a “clarification”, the Treasury claimed that many of its proposed new rules had been drafted in error. The deflection of responsibility was reminiscent of earlier attempts to make an unidentified “junior official” a scapegoat for losing millions of citizens' tax details.

As excuses go, owning up to ineptitude can appear refreshingly honest. In this case, however, it stretches credulity, undermining confidence in a Treasury that is already struggling to survive a string of disasters including its ham-fisted handling of the Northern Rock crisis and a fumbled reform of capital-gains tax late last year. For the alleged mistake was not merely the clumsy use of language, as the Treasury implied. Sloppy thinking attended every step in the development of the new tax policy, complete with draft legislation, guidance notes and a helpful “frequently asked questions” section on the revenue department's website.

At issue is the reform of a loophole dating from the age of empire that lets foreigners (and their British-born children) shelter their offshore wealth and income from tax in Britain. The law was designed during the Napoleonic wars, when the government hoped to tap plantation-owners in the Americas for cash. Now the 10% of Britain's population who were born abroad—American bankers, Polish plumbers, Zimbabwean nurses and many others—are entitled to use it. The other 90% are liable for tax on their income and gains worldwide.

Although Britain's squeezed middle classes have repeatedly cried foul at this, successive governments have shied away from taxing foreigners' offshore earnings (as most countries do at least in theory) for fear of driving the clever, useful, high-spending rich folk away. The Treasury reckons the 115,000 people who claimed “non-domiciled” status in 2006 paid some £4 billion ($7.8 billion) in income tax on their earnings in Britain and contributed £12 billion to GDP. Stonehage, a firm that advises rich people, says that “non-doms” also pay nearly £3 billion in consumption tax (VAT) and more than £300m a year in tax on property transactions.

Fears that wealthy foreigners, taxed more heavily, would flee in droves may be overblown. London is more than a tax haven: it has good (mostly private) schools, high culture and a global financial centre. But the world's rich (rather like its poor) are a footloose bunch. They are supported by an army of consultants with an acute sensitivity to the faintest change in tax law. And even a small fall in the number of people coming to Britain or staying there each year could add up to substantial economic losses in time.

The Treasury's original plan, laid out in December, sought to strike a balance between fairness and pragmatism. It proposed to let foreigners keep their tax-favoured status for their first seven years in Britain: tens of thousands of high-fliers flock to work in the City of London, but often for only a few years. The plan was to charge them £30,000 a year thereafter if they chose to remain non-domiciled.

The new rules would have raised a modest £650m a year while prompting only some 3,000 people to leave Britain, according to government estimates. Although rich foreigners and their advisers and employers grumbled, this was generally seen as a bearable reform with limited negative consequences. “It would have raised some extra tax and not been a disaster,” says Bill Dodwell, head of tax policy at Deloitte, an accounting firm.

Mr Darling and his team blundered, however, when they later introduced more burdensome requirements in the draft legislation, with a view to discouraging tax cheats. These rules would have forced non-doms

not only to disclose their interests in offshore trusts but also, potentially, to pay tax on earnings made and kept abroad, even retrospectively. This prompted still more thunderous lobbying from banks, shipping magnates and City bigwigs, and the hapless chancellor bowed to it. All talk of reporting foreign assets has now been “clarified” to extinction; some people, scenting weakness, are pushing to have the whole plan binned.

The crisis may have passed, but the non-dom wars have left their mark. Foreign financial folk do not feel quite as welcome in London as they did, or quite so sure that the government knows what it is doing. One casualty may yet be Mr Darling himself, whose reputation for competence has been sorely strained. But was it really his fault or Gordon Brown's?

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Anglicanism

The gathering storm

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From The Economist print edition

An archbishop's outburst highlights a broader crisis in his church

“ANGLICANISM, it seems, is coming apart. It is ceasing to be, it is disintegrating...” Those cheery words, uttered two weeks ago by an American bishop, Robert Duncan of Pittsburgh, drew cries of approval from traditionalists across the world who have little sympathy with the efforts of Rowan Williams, the Archbishop of Canterbury, to hold together the 80m-strong worldwide Anglican Communion.

The American prelate went on to predict that out of the fall of the “Elizabethan settlement” (the 16th-century bargain between the Tudor monarchs and England's national church) something truer to Christianity's roots would emerge, presumably based on an alliance between America's conservative minority, the Africans and evangelicals in other places like Australia.

Such pronouncements reveal the dire background against which the archbishop made what to many seemed the most astonishing statement since he assumed his ancient office in 2003. He said that in Britain the symbiosis that existed in practice between the law of the land and Muslim institutions, especially those that regulate marriage, property and inheritance, should be recognised and formalised.

Studied closely, the archbishop's speech—and a radio interview he gave the same day—did not read like intentional provocation: it was the sort of intellectual conceit that might have worked well in a theological seminar. But this theology professor failed, it seems, to anticipate the incendiary effect of the very word *sharia* on the British public, which outside the cosmopolitan ambience of London has serious worries about the march of Islam.

The archbishop's apparent lack of political savvy was a gift to some of his global critics, who already see him as soft-minded on the issue of homosexuality that threatens to wreck this summer's once-in-a-decade gathering of the communion's bishops. “People who saw Rowan Williams as a wise man will have much less respect for him now,” said Edith Humphrey, a theology professor in Bishop Duncan's diocese of Pittsburgh.

Prospects for the Lambeth gathering in July may not be as hopeless as these comments suggest, but the shadows on the archbishop's lawn are lengthening. Conservative Anglicans have announced plans for an alternative summit in Jerusalem a month before the conclave in Britain. Among the luminaries there will be Nigeria's archbishop Peter Akinola—one of at least four African conservatives who seem likely to boycott Lambeth.

Schism has been looming over Anglicanism since 2003, when American liberals ordained a gay bishop, Gene Robinson. And—a sign of how far apart the camps are—the conservatives' worry is not that Lambeth will endorse homosexual relations among the clergy or anybody else; it is rather that decisions there will not provide clearly enough for the expulsion of churches which stray in a liberal direction.

In the latest move, Drexel Gomez, the conservative Archbishop of the West Indies, has started drafting a compromise that would allow old-timers to attend the Lambeth meeting, on the understanding that proper arrangements will be made for disciplining gay-friendly liberals. To people who are neither Christian nor Muslim, it must all sound a bit like *sharia* law.

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Cathedral finances

Helping those who help themselves

Feb 14th 2008 | YORK
From The Economist print edition

Cash-strapped cathedrals enlist Mammon too

THE house of God is, traditionally, a place of refuge for all. But not York Minster: visitors to this magnificent Gothic cathedral must pay a £5.50 ($11) cover charge before they are allowed in to admire the intricate, 500-year-old stained glass of the rose window or the lovingly-carved arches that support the vaulted roof. There are frequent exhortations to give more money, a slick guidebook costing £5 and a gift-shop selling all manner of Minster-related knick-knacks.

Charging people to enter a church may seem tight-fisted, but England's 61 cathedrals are perennially short of money and in need of repair. On February 7th English Heritage, a conservation outfit largely funded by the government, and the Wolfson Foundation, a private charity, announced a £2.1m donation to 28 of the most deserving (among which popular York Minster did not figure), the latest in a series of grants going back to 1991. The Church of England pays another £2.7m a year, mostly to the poorest cathedrals, to fix leaky roofs and renovate crumbling stonework. But the hand-outs are nothing like enough to cover repair costs estimated at £11m per year.

Necessity is the mother of invention, and cathedrals have come up with all sorts of wheezes to raise cash. Besides entry fees (also charged by Westminster Abbey and St Paul's Cathedral in London, among others), some tap gamblers by appealing to the National Lottery. Others charge for car parking in crowded cities or moonlight as conference centres: Southwark Cathedral, in south London, was so successful that it won a business award in 2005. Other ideas are more gimmicky: visitors to York Minster can “sponsor a stone,” for example, and in 2006 the cathedral auctioned bits of masonry on the internet.

Official neglect often puzzles foreigners; after all, Anglicanism is the state religion and several European countries, including Germany and Sweden, levy a tax to prop up their national churches. It is not just the state that keeps a prudent distance. The Englishman's arm's-length relationship with religion was pithily captured by Alastair Campbell, Tony Blair's press spokesman, when he said in 2003, “We don't do God.” Sarah King, who runs the Association of English Cathedrals, contrasts the stinginess of the English with America, where favourable tax treatment and the separation of church and state make private charitable donors more likely to pay for religion.

In England the best argument for state funds to maintain cathedrals may be their value as tourist attractions. A third of Britain's 33m foreign visitors come to admire its history. England's 42 Anglican cathedrals alone receive 10m tourists, and help channel around £150m to the local economy. Sprucing them up might prove a wise investment.

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Military spending

Rusty Lusty

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From The Economist print edition

Britain is struggling to preserve its hard power

POOR old “Lusty”. *HMS Illustrious*, Britain's 25-year-old aircraft carrier, all too often sails without Harrier jump-jets because they are busy in Afghanistan. In the past few weeks, moreover, the flagship has had trouble putting to sea at all.

On January 21st Lusty set out from Portsmouth to lead a multinational flotilla in the Indian Ocean, but soon returned to repair broken refrigerators. On February 8th she had to put in at Portland, some 70 miles farther west, to fix a problem in separating oil from bilge water. And on February 13th a faulty propellor-shaft had to be mended.

Her escort ships also had troubles, not least an unresponsive air-defence system. The Royal Navy plays down these difficulties, but it is already clear that the carrier will miss an exercise in Oman this month involving the precious Harriers. *Illustrious* is meant to be Britain's high-readiness ship; if she cannot be ready in time for a long-planned deployment, some ask, how can she respond quickly to a crisis?

For commanders, such embarrassments are evidence of the hollowing-out of the navy as defence spending becomes tighter. The “senior service” has lost warships at a relentless pace since the end of the cold war. The hulks of dead or dying vessels litter Portsmouth harbour. Spending to maintain those that remain in service is also being squeezed: ships sailing to quieter zones are often stripped of equipment and sailors so that those deploying to the Persian Gulf can be fully kitted out. The government, though, tells a rosier story: defence spending is rising, shipbuilding is booming and the navy will get two new “super-carriers” thrice as big as *Illustrious*. These will carry the stealthy new Joint Strike Fighter (JSF) that is being built with America and others.

Such ambitions come at a cost. The new carriers have enlarged an already big hole in the defence budget. Despite plans to increase real expenditure by 1.5% a year, defence sources say there is an “eye-watering” shortfall of £500m next year, rising to about £2 billion in 2011-12. On February 20th service chiefs and civil servants will try to agree on a savings plan for approval by Des Browne, the double-hatted secretary for defence and for Scotland. Budgeting involves grim inter-service fighting at the best of times, but the current round is the toughest in decades. About £2 billion must be taken out of the £12 billion annual equipment budget over the next two years in order to balance the books while paying for the wars in Iraq and Afghanistan and improving soldiers' pay and conditions

Britain is still fighting two wars on peacetime budgets. It needs to decide whether to increase defence spending to match its global ambitions or accept the permanent loss of some military capabilities. Instead, to put off the reckoning, ministers will probably delay the new carriers by a year or more, chop a few more ships and submarines, push back new transport aircraft, downgrade future armoured vehicles and skimp on maintenance.

All this distorts the military posture. It creates an even bigger hole in the budget from 2010, sucks out funds to keep old kit going, increases the unit costs of delayed and reduced future equipment, and penalises those at the end of the procurement pipeline. On current plans, for example, the air force is taking full delivery of 232 Typhoon jets, but it is doubtful that Britain will buy the 150 JSFs it would like.

The cost of the JSF is rising, and the jump-jet version ordered by Britain has yet to fly. The navy is

paying the price for the carriers: its eight existing destroyers will probably be replaced by just six of the new Type 45 ships. The attack submarine fleet is likely to shrink from the current nine to six new Astute-class vessels. Nobody knows what will replace the 17 frigates. Britain could one day find itself with two new carriers, but too few escorts to protect them and not enough planes. They may sail, but will they be able to fight? The days of Lusty, for all her problems, may yet come to be seen as a golden age.

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Badri Patarkatsishvili

Death in Surrey

Feb 14th 2008
From The Economist print edition

A Georgian oligarch's demise raises suspicion

STRESS can cause heart attacks, and Badri Patarkatsishvili had a lifetime's dose of it. His exotic journey to wealth, power and exile in Britain included high-stakes political gambles that would have left milder characters twitching in terror. Seen one way, he was a champion of democracy, staking his fortune—and perhaps his life—to overturn corrupt and murderous rule in his native Georgia in the Caucasus. Seen another way, he was an opportunist using a murkily obtained fortune, loosely estimated at up to £6 billion, to topple Georgia's pro-Western government and move it closer to Vladimir Putin's Russia.

Police are treating his death, apparently from heart failure, in his closely guarded Surrey mansion on February 12th as suspicious, at least for now. That may reflect nothing more than well-judged caution. It took weeks for Alexander Litvinenko, a fugitive Russian foe of Mr Putin's, to persuade the British authorities that he had indeed been poisoned with polonium. Mr Patarkatsishvili was 52—not far off the average life expectancy for men of his background and generation—and a smoker from a family with a history of heart trouble. But close associates say he had shown no sign of ill-health; he had recently hired a personal trainer and lost weight.

Conspiracy theories, inevitably, are swirling. Who wanted him dead? And who had the means to carry out what would have been a sophisticated assassination? Before his death, Mr Patarkatsishvili had said the Georgian authorities were trying to kill him. He produced a tape purporting to record a senior Georgian official planning the murder with a notorious Chechen warlord. Georgian officials dismiss that as a fake. They point to another tape, the result of a sting operation before last month's presidential election, in which Mr Patarkatsishvili appears to offer a $100m (£51m) bribe to an official in return for discrediting the poll.

If Mr Patarkatsishvili was indeed murdered, an obvious candidate—at least in his friends' eyes—is the Georgian authorities. But it requires some effort of imagination to think that a country desperate to join NATO would stage a high-profile murder in Britain, just weeks before the alliance's summit in Bucharest where Georgia's application will be discussed. Specialists doubt that Georgia's American-trained security services would have had the means or the authorisation to kill Mr Patarkatsishvili in this way, even if some Georgian politicians were rash enough to order it. Some think business rivalry lay behind it.

The darkest interpretation of his death is that it was ordered by the Kremlin, perhaps to discredit Georgia or to intimidate other ex-Soviet exiles living in London, such as Boris Berezovsky, a Russian tycoon and Mr Patarkatsishvili's close chum. Mr Patarkatsishvili had made his fortune in Russia in ways that are not entirely clear. That may have left some lasting grudges.

At a minimum, Mr Patarkatsishvili's death highlights the exotic and louche world of super-rich foreigners who live in Britain but engage in politics abroad. The government has been worried lately about making these people pay more tax. It would be advised to think more deeply about the danger of importing foreign feuds along with all the lovely lolly.

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Economic woes

Fighting on two fronts

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Britain's central bank gets gloomier about growth and inflation

THREE months ago the Bank of England unveiled a grisly set of forecasts for 2008, predicting a sharp downturn in growth and a troubling pick-up in inflation. This week it published new projections, in its quarterly *Inflation Report*, that are grislier still.

The central bank now thinks that the slowdown will be deeper and more protracted than it anticipated in November. The pace of economic growth, which was over 3% last year, will decelerate to 1.6% by late 2008. Worryingly, the risks to this central projection, which is based on the further interest-rate cuts assumed by the markets, "lie to the downside". The wrenching slowdown could well encompass a technical recession, defined as two consecutive quarters in which GDP falls.

Flagging consumer demand and faltering private investment as the financial crisis of the past six months takes its toll are the main reasons why the growth outlook has soured. Presenting the report on February 13th, Mervyn King, the Bank of England's governor, said that consumer spending would be "very weak" in 2008. Residential and business investment will also suffer, pointed out Charles Bean, the bank's chief economist, as lenders become more reluctant to extend credit.

But as economic growth tumbles, inflation will take off (see chart). In January consumer prices were 2.2% higher than a year ago—a bit above the government's 2.0% inflation target. The bank's central forecast shows inflation heading up to 3% by the third quarter of this year. If it reaches 3.1%, Mr King will have once again to write publicly to the chancellor of the exchequer—he first did so last April—to explain the overshoot. He said this week that it was "more likely than not" that he would have to write that second letter.

Inflation will increase as higher energy, food and import costs feed through to consumer prices. Rising home-energy bills, which have jumped by nearly 15% so far this year, will add almost half a percentage point to consumer-price inflation in February. Food-price inflation, which is currently 6.6%, is likely to rise further. Import prices will be pushed up by a weaker pound, whose 6% fall in the last three months was the biggest since sterling's ignominious exit from the European exchange-rate mechanism in 1992. Already, import-price inflation has surged to 4.9% in the year to the final quarter of 2007 from 0.8% in the previous three months.

The Bank of England faces what Mr King called a "difficult balancing act", for it is fighting a war on two fronts. On the one hand, it needs to ward off an unduly deep downturn in growth. On the other, it must ensure that this year's rise in inflation, which it thinks will be temporary, does not become entrenched through higher inflation expectations.

In practice this balancing act means that the central bank will lower interest rates again but by less than the financial markets have been expecting. It has already brought down the base rate from 5.75% in November to 5.25% this month, and the City thinks the rate will drop to 4.5% by the end of the year. The bank's forecasts imply that so deep a cut would be excessive, since it would leave inflation above the 2.0% target at the two-year horizon on which the rate-setters fix their gaze. But if the base rate were to stay at 5.25%, inflation would be below the target in early 2010. This suggests the need for at least one more cut, to 5.0%, and maybe another, to 4.75%, by late 2008.

To contain expectations, the Bank of England is sending a message of tough love before the expected

surge in inflation. But if growth prospects deteriorate further, the rate-setters may have to cut more drastically than they signalled this week.

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Economist.com WORLD INTERNATIONAL

Faith, law and democracy

Defining the limits of exceptionalism

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From The Economist print edition

reportdigital

The right of faiths to run their own affairs and regulate their adherents' lives has recently become controversial—because of fear of Islam

AMONG family-law buffs, the case is seen as a key example of the messy ways in which religious and civil law can get entangled. It concerns an Italian couple who wed in a Catholic church in 1962. After 25 years of less-than-blissful union, she got a legal separation from a civil court, which told him to make monthly maintenance payments. But he had other ideas: he convinced an ecclesiastical court that their union had never been valid, because they were close blood relations.

After vain appeals to various civil and religious courts in Italy (to which she complained that she never got a chance to tell her story), she turned to the European Court of Human Rights, which in 2001 ruled in her favour and made a modest compensation award. The European judges in Strasbourg had no jurisdiction over church courts—but they did find that Italy's civil judges failed to assess the religious courts' work or note the deficiencies.

In every democratic and more-or-less secular country, similar questions arise about the precise extent to which religious sub-cultures should be allowed to live by their own rules and “laws”. One set of questions emerges when believers demand, and often get, an opt-out from the law of the land. Sikhs in British Columbia can ride motorcycles without helmets; some are campaigning for the right not to wear hard hats on building sites. Muslims and Jews slaughter animals in ways that others might consider cruel; Catholic doctors and nurses refuse to have anything to do with abortion or euthanasia.

Even in determinedly secular states like France and the United States, the political authorities often find that they are obliged, in various ways, to cope with the social reality of religious belief. America's Amish community, fundamentalists who eschew technology, has generally managed to get around the law with respect to social security, child labour and education. In France, town halls serving large Muslim populations ignore secular principles as they get involved in the ritual slaughter of sheep.

Apart from exceptions to existing laws, another sort of problem arises when religious (and other) communities establish bodies that work very much like courts—and may be called courts—that enforce ancient rules that are often called laws.

All these questions, but especially the last of them, have been on the mind of Rowan Williams, the Archbishop of Canterbury. The Anglican leader caused a furore when he suggested, on February 7th, that some accommodation between British law and *sharia*, or the Muslim legal tradition, was inevitable and should perhaps be made official.

At first, there seems not to be any huge problem about the existence of institutions whose members freely choose to respect a set of norms—so long as participation really is voluntary, and the rules do not horrify the rest of society. (Intuitively, most Western societies accept the circumcision, on religious grounds, of baby boys, but they would not tolerate the genital mutilation of baby girls.) But in almost every democracy which aspires at the same time to be fair, secular and tolerant of religious diversity, it is getting harder to mark out and preserve the boundary.

AP

America's oldest exception: the Amish

Until recently, religions with deep local roots—like Anglicanism in Britain or Lutheranism in Scandinavia—could rely on well-honed survival instincts; clerics had developed a keen sense of how much "soft theocracy" society could accept, and when to beat a tactical retreat. Even the existence of court-like institutions, dealing in particular with marital and property issues, caused little fuss as long as everybody involved recognised the absolute primacy of the law of land. In Britain, for example, religious courts or *beth din* used by Orthodox Jews have been recognised by statute—and in 2002, divorce law was adjusted in a way that acknowledged the role of these bodies. (If a Jewish husband refuses to seek a religious divorce—thus denying his wife the chance to remarry in a synagogue—a civil judge can now delay the secular divorce.)

The Church of England uses ancient canon laws to govern the use of church property and its internal workings. But like the monarchy, it knows that the way to retain some vestigial authority is to give up most powers that could be controversial.

What has upset the old equilibrium, say law pundits in several countries, is the emergence all over the world of Muslim minorities who, regardless of what they actually want, are suspected by the rest of society of preparing to establish a "state within a state" in which the writ of secular legislation hardly runs at all. The very word *sharia*—which at its broadest can imply a sort of divine ideal about how society should be organised, but can also refer to specific forms of corporal and capital punishment—is now political dynamite.

That has rendered controversial some things that were once well accepted, like the existence of arbitration services which lighten the burden of the state by providing an alternative arena in which disputes can be settled. As Maurits Berger, a Dutch specialist on Islam and the law, points out, most English-speaking countries have a tradition of dealing with family law through arbitration—voluntary procedures to whose outcome the parties are bound. (Things are different in continental Europe, where the nearest equivalent is non-binding mediation services.)

The Canadian province of Ontario is the clearest case of an English-speaking place where fear of Islam made religious arbitration untenable. An uproar began in 2003 when Syed Mumtaz Ali, a retired Ontario lawyer, said he was setting up a *sharia* court to settle family law disputes for Muslims. Such arrangements were allowed by the province's 1991 Arbitration Act and could carry the force of law.

The proposal caused an instant backlash, right across the religious and political spectrum; many Muslim groups were opposed too. Marion Boyd, a retired attorney-general, investigated the matter and initially recommended that the Arbitration Act should continue to allow disputes to be adjudicated by religious bodies—subject to stricter regulation by the state. But that turned out not to be good enough for Ontarians who were nervous of *sharia.* In September 2005 the province's premier, Dalton McGuinty, decided to prohibit all settlement of family matters based on religious principles under the Arbitration Act. Religious arbitrators could still offer services in the settlement of disputes, but their rulings would not have legal effect or be enforceable by the courts. The province's laws were duly changed.

The political background to these moves is no secret: a general wariness of Islam prompted not only by the September 2001 terrorist attacks, but also by NATO's war against the Taliban in Afghanistan, in which scores of Canadian soldiers have died. Moves to establish *sharia* tribunals, be they ever so voluntary, aroused "quite a lot of anti-Muslim feelings", says Alia Hogben of the Canadian Council of Muslim Women (which opposed the tribunals). "It allowed people to say, here they come, they are going to ask for more and more." Apart from a general fear of theocracy, says Jeffrey Reitz, a professor at the University of Toronto, Canadians were nervous that "some of the progress that's been made with gender equality might be lost if we begin to accommodate various group that have less concern..."

As anxiety over (real or imaginary) Muslim demands for *sharia* turns into a broader worry about theocracy and religious exceptionalism, many democracies are seeing bizarre multi-polar disputes between secularists, Christians, Muslims and other faiths.

In southern Europe, says Marco Ventura, a religious-law professor at the University of Siena, Catholics are now more worried about the perceived advance of Islam than about maintaining old entitlements for their faith. “Their dilemma is whether the rights which their faith enjoys can be justified when new ones, like Islam, are appearing in Europe.” Some of Italy's Muslims, meanwhile, have been demanding “secularism” in the sense of diluting the Roman Catholic culture of the state, which is epitomised by crucifixes in court rooms, classrooms and hospitals. A Muslim convert, Adel Smith, has been fighting a long battle to get such symbols removed.

In France, President Nicolas Sarkozy has dismayed secularists by stressing the country's Catholic heritage in some recent speeches. But the late (Jewish-born) Archbishop of Paris, Cardinal Jean-Marie Lustiger, was a staunch defender of the secular state as a bulwark against all forms of fundamentalism.

Defining the relationship between religion and the state was certainly easier when it could be assumed that religion's hold over people's lives and behaviour was in long-term decline. But with Islam on the rise, and many Christians—even those with the vaguest of personal beliefs—becoming more defensive of their cultural heritage, the line is getting harder and harder to draw. On that point at least, Archbishop Williams was quite correct.

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Economist.com WORLD INTERNATIONAL

The West and Russia

Lights, camera and a different ending

Feb 14th 2008
From The Economist print edition

Bad times, but not always all they seem

IT COULD all be a cold-war rerun. Japan complains of Russian military jets intruding on its airspace. Russian pilots reportedly buzz an American naval ship. Against this backdrop, and recently resumed Russian air and naval exercises in the Atlantic and Pacific, Vladimir Putin volunteered Russia proudly this week for a new arms race with America. He also threatened to point his nuclear missiles at Ukraine, should it join Poland and the Czech Republic (already on his hit list) in helping America deploy missile-defences in Europe. At home, meanwhile, goons from what was the KGB have been texting barely-veiled threats to Russian employees of a British cultural outfit caught up in a bust-up over the murder in London of a former Russian agent with radioactive poison, presumably from Russia.

Western governments worry about this pugnacious, prickly Russia. Sergei Ivanov, an influential deputy prime minister, spoke more softly at a security conference in Munich, proposing that America and Russia lead a new drive for global arms control. But gloomy Westerners with long memories note that the habit of arms-control bargaining was born in the cold war. And Mr Ivanov's promise that Russia was not trying to buy up Europe with its petro-dollars, only extracting maximum economic advantage from its (worryingly tightening) grip on oil and gas supplies, left Javier Solana, the European Union's foreign-policy point man, fretting that Russia seemed to be investing only in “future leverages”, not in boosting energy output.

But what Mr Putin seems to be aiming at is not so much to replay the cold war, as to rewrite its ending. That means using energy policy and any other tool to hand to restore the influence Russia lost after the Soviet Union collapsed. Expect him and his hand-picked successor, Dmitry Medvedev, who takes over in May, to keep leaning on Ukraine and Georgia, both former Soviet republics, over their ambition to join NATO and the EU—an issue Mr Putin is unlikely to drop as NATO holds its summit in Bucharest in April. Nor is Russia likely to go along quietly with the about-to-be-declared independence of Kosovo.

However, behind the bluster and the anger at slights both real and imagined, it is worth remembering that Russia's western border—with NATO—has never been more peaceful: NATO's front line these days is in Afghanistan (where America is actually financing the purchase of Russian helicopters and transport planes by the nascent Afghan air force). And while Russia may indeed be building new missiles, there will be a lot fewer of them; it spends on defence only a fraction of the Soviet total.

Not only that, but Russia's relations with the West, however difficult, have never been more intimate. What passes for the rule of law in Russia makes Westerners blench, yet business thrives. Russia is close to joining the World Trade Organisation, even though that means putting out feelers both to Poland's new government and to Georgia's recently re-elected one (both of whom could block Russia's membership), whatever the differences over NATO and missile defences.

Intriguingly Mr Putin's recent war of words (anyway one-sided, since Western leaders have studiedly refused to respond in kind) has also left undamaged extensive areas of co-operation: curbing the nuclear ambitions of Iran and North Korea; counter-terrorism and the fight against drug smuggling, in Afghanistan and beyond. Work in other quite surprising areas is often overlooked, argues Rose Gottemoeller, who heads the Moscow office of the Carnegie Endowment, a Washington-based think-tank, simply because by now it has become routine.

This week Russia tabled a draft treaty on the military use of space; the Bush administration will reject it. Yet the two countries' civilian space programmes are so closely intertwined, argues Ms Gottemoeller, that if an American space shuttle were to be in serious difficulty in space, it would likely be a Russian-built rescue craft that brought the crew back to earth. Western publics tuning in only to Mr Putin's hyperbole might also be surprised to learn how much America and Russia get up to together trying to get difficult jobs done on planet earth too.

For all Mr Putin's arms-racing talk, America and Russia are quietly getting on with a years-long joint effort, to be completed by the end of 2008, to upgrade security at some of Russia's most sensitive nuclear sites, including those where its nuclear warheads are stored. To stop nuclear materials falling into terrorist hands, the two have also been co-operating both in returning fresh and spent Russian-origin nuclear fuel from reactors overseas, and in getting governments around the world to tighten up their own nuclear rules and export controls. Once an American-Russian nuclear co-operation agreement is ratified (trouble looms in Congress over the involvement of Russian companies in Iran's nuclear and missile work), Russia could eventually make a packet taking in American-origin spent fuel from countries such as South Korea and Taiwan.

Yet there are still dangers. Arms control is one area where Russian and American paths could again diverge. Russia has half pulled out of a treaty governing the movement of troops and tanks in Europe, and is threatening to abandon one that prevents America and Russia building intermediate-range missiles (those that can fly from 500-5,500km) unless others accept similar curbs. It also wants more binding rules on strategic nuclear forces than the Bush administration is ready to tolerate. Yet in this area, some of Russia's concerns (if not its ways of expressing them) are shared by Mr Bush's critics at home and by allies in Europe. In an effort to ensure that the next American administration is well versed in the whole range of arms-control issues, over the coming months the Carnegie Moscow centre will host a series of detailed technical discussions between American and Russian experts. In these areas and others, the West and Russia still have plenty to talk about, and still do.

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Politics and sport

High hurdles

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It has never been possible to separate the Olympics from politics

Reuters

Guarding the nation's honour

LOFTY words are always a hostage to fortune. The Olympic movement boasts that the games “have always brought people together in peace to respect universal moral principles.” Yet history suggests otherwise. Boycotts marred the jamborees of 1956, 1976, 1980 and 1984. In 1968 two American sprinters gave a Black Power salute on the podium. The 1972 games were blighted when Palestinian terrorists killed 11 Israeli athletes.

Now China, due to host the games in August, is finding that its Olympic slogan—“One world, one dream”—also rests on hope more than fact. Steven Spielberg, an American film director, has quit as an artistic adviser for the opening and closing ceremonies: China, he said, must do more to stop the bloodshed in Darfur. On February 14th a group of Nobel laureates and athletes said the same in a letter to the *Independent*, a British daily.

Since Beijing won the right to stage the games in 2001 China has known that it would have a hard time preventing critics of its human-rights abuses from spoiling the event. In 2006 it was delighted when Mr Spielberg came on board. But to China's surprise, its behaviour abroad, particularly in Sudan, has been the focus of Hollywood's ire in the run-up to the games.

China has reacted angrily to what it calls attempts to “politicise” the Olympics. But recently it has been stung by the attempts of activists like Mia Farrow, an American actress, to portray the games as a “genocide Olympics” because of the killings in Sudan. China buys most of Sudan's oil and sells it arms. This, say activists, makes it complicit in the state-orchestrated killing that has devastated Darfur.

To deflect such charges, China has shifted a little from its usual refusal to get involved in other countries' political affairs. Western diplomats credit China with helping to persuade Sudan to accept a UN peacekeeping mission there. But this has not satisfied Mr Spielberg.

Even as it rejects their “politicisation”, the games are of huge political importance to China. The Olympiads of the 1970s and 1980s were an athletic projection of the cold war; now China's leaders want to show off their country as a respected world power, no longer weighed down by memories of the killings of pro-democracy demonstrators in Beijing in 1989. (They want to top the medal table too.) George Bush has said he will be there.

But activists may be hard to muzzle. What if one of the guests says something rude? The Olympic movement's rules bar athletes from making political “demonstrations” at Olympic venues. But this week, after much criticism, the British Olympic Association said it was rethinking a decision to ask its team members to promise not to comment on sensitive issues during the games. Politics will intrude one way or another.

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The electronic bureaucrat

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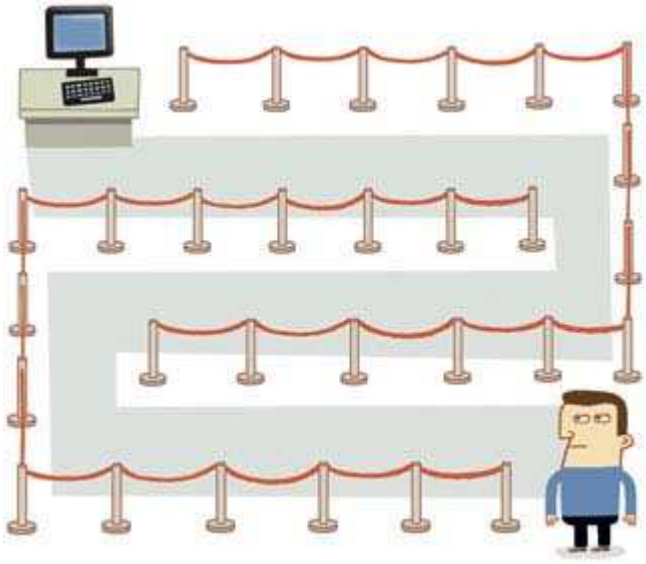
Putting their services online should allow governments to serve their citizens much more effectively. But despite heavy spending, progress has been patchy, says Edward Lucas (interviewed here)

Illustration by Allan Sanders



AT 6.15AM on a December morning the streets of central London are cold, dark and offer little for the omnipresent CCTV cameras to record. But outside the Indian High Commission 109 people are sleepily waiting for the visa section to open. David Robb and his friend are first in line, huddled in sleeping bags behind a windbreak since 3am, to ensure visas for a planned holiday in Goa. Nearly all his fellow-sufferers in the queue have booked their air tickets and sometimes their entire holiday on the internet, paying with a credit card. Those electronic signals move information almost at the speed of light—billions of times faster than the shuffling, shivering humans in the visa queue. “In this day and age? Bleeding disgusting,” is Mr Robb's pithy comment on the Indian visa system.

It is not just that the passport and its owner must be physically present. The £30 ($60) fee must be in cash; the visa form must be filled in by hand and authenticated with a signature and a photograph (a hard copy, not a digital file). The procedure has scarcely changed in 60 years. The 500 people waiting at 8.30am, when the visa office opens, should get their visas by noon, though on busy days stragglers may be told to collect it the next day. Applying by post is possible, but may take weeks.

Compare that with another queue forming in Grosvenor Square, a brisk 20-minute walk across London. Procedures at America's fortress-like embassy are even more stringent, requiring all visa applicants to present themselves in person, with no postal option. But here the procedure is backed up by intelligent use of electrons. Applications must be submitted online, accompanied by a non-refundable $131, paid electronically. In return, the applicant receives a confirmation e-mail, which includes a barcode with the information from the completed form. Printed out, it is also the entry ticket to the embassy, controlling outsiders' access to one of the main terrorist targets in London.

Inside, the barcode is scanned, putting the data onto the visa officer's computer. Fingerprints are digitally recorded. The visa itself, collected shortly afterwards, has banknote-style security features, plus a scanned picture of the applicant.

In some ways the differences are smaller than they seem. Under both systems, absurd questions are asked but the answers are never verified. India wants to know if you have relatives in Pakistan; America wants to know whether you were ever arrested for anything anywhere, and if so, why (your correspondent, detained several times by communist-era secret police, brazenly fibbed).

But in a few nutshells, visa services also illustrate some of the big issues about technology and government. First, processing power and good software can make government more user-friendly and sometimes also more efficient, but technology on its own cannot compensate for the mistakes of bureaucrats and politicians. Second, the state has to balance convenience against effectiveness, the outsider's time versus the taxpayer's money and the bureaucrat's effort. Technology may sharpen these problems or ease them, but it cannot eliminate them altogether.

Believers in technology's potential in public administration often speak of e-government, or of “transformation”. The practicalities are sometimes vague, but the big picture is clear: government not only puts its services online, but in doing so changes the way it works.

Most countries have got at least somewhere on this, chiefly in what might be called i-government: the provision of information. India's downloadable visa application form represents that stage. Progress is also being made on using the internet's potential for interaction. America's visa system goes some of the way by getting the applicant to key in the data.

The internet is also being used inside government to share data among departments. That is easier to do with non-citizens than with voters, who may be touchy about their privacy being invaded. The next stage will be to provide the whole service online. For visas, that would mean something printed out by the applicant, downloaded onto a smart card or even stored in a mobile phone (an example of “m-government”—same service, different delivery). At the same time, technology should also make it easier for politicians to connect with their voters (“e-democracy”).

George Markellos of PA Consulting, a British-based consultancy, says that government needs to start by making three big changes. First, it needs to personalise what it offers, rather like online shopping services which record customers' preferences, making their next visit easier. Second, it has to provide round-the-clock access. People want to deal with government not only in office hours, but also in the evenings and at weekends. And lastly, public services have to be as easy to use as anything the private sector offers. In the online world, government is competing for users' time and attention with beautifully designed sites that are fun to use. The government's offering, says Mr Markellos, “has to be massively attractive”.

Illustration by Allan Sanders

Yet comparisons with the private sector get you only so far. Government rarely faces competition and public services seldom come at market prices. More often they are “free” or subsidised, and their use needs to be policed or rationed. The state provides its “customers” with defence, justice and roads, and usually some public services such as health care, education, pensions and transport, plus some support for the poor. But it is also the steward of scarce public resources and the preserver of public goods such as law and order. In keeping track of wrongdoers, actual and potential, being user-friendly is not crucial. New technology makes it easier to collect taxes but it does not make them any more welcome.

The state's role as a watchdog is something that the grumbling queues outside embassies have to bear in mind. Tough visa procedures undoubtedly deter businessmen and tourists from visiting, but the visa is the way that the state protects its citizens from undesirable outsiders. Similarly, issuing passports and driving licences is never going to be as easy as getting a loyalty card from a retailer.

This report will argue that technology can give politicians and officials a better idea of what the public wants and how to provide it, just as it has done in the private sector. But just as the private sector's adoption of new technology involved a number of pitfalls, some e-government ventures have been ill-starred. Citizens are right to be suspicious about technology that can make government all-encompassing, and they should demand a lot more of government as a monopoly provider of public services.

Technology on its own will not bring reform, but it can make changes easier, cheaper and more effective. The learning curve has not been nearly steep enough, but governments are getting better at buying and using computers and software. The benefits are mounting and the costs are coming down.

The benefits will be biggest in countries where officials and politicians are open to pressure and where the citizens are public-spirited to start with. E-government is no magic bullet, but it gives citizens and lobby groups more power to scrutinise government and highlight waste and dishonesty.

It's everywhere

Although hopes have been high and the investment has been huge, so far the results have mostly been disappointing. That reflects a big difficulty in e-government (and in writing about it): it touches on so many other things. What exactly is it that public organisations are trying to maximise, and how can it be measured? Ask the economists. What motivates officials and politicians to make government honest and competent? Bring in the political philosophers. And who decides on the highly contested trade-offs between privacy and security, efficiency and equity?

This report will explain that gloom, fear and optimism are all justified. It will look at the return on investment so far, the hoped-for gains and the neglected drawbacks of e-government. It will show how good leadership, openness and competition can bring spectacular gains, and how bad planning and political interference can make technology in government an expensive disaster. It will look at the dangers of government-run databanks and how to lessen them, and the way in which poor countries such as India may be able to leapfrog rich ones in their use of technology. It concludes by asking if e-democracy makes politics more participatory, or merely noisier. But it starts with an incontestable success: i-government.

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Look it up on the web

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The growth of i-government

Illustration by Allan Sanders

EVEN the most curmudgeonly critic would have to admit the one great benefit of e-government: it comes twinned with i-government, where i stands for information. As readers under the age of 30 may be only dimly aware, before the internet age simply getting hold of information on any aspect of government was often far from straightforward. Getting the right form and finding out how to fill it in might involve going to a post office, writing a letter (sometimes enclosing a money order or a stamped self-addressed envelope) or visiting a government office and often queuing. Government printing offices sold official documents to cover their costs and sometimes to make a profit.

All this meant that information came at a price in time, effort and fees. In poorer countries it might require more than that. The forms might not be available, or they might have to be bought from profiteering officials or their friends. The layout would change regularly, so that applicants with the wrong form could be fined or encouraged to pay a bribe to have their mistake overlooked. Being in charge of publishing the latest regulations used to be a lucrative niche: a business would pay handsomely for information about a new standard that its products had to comply with.

These days, governments in advanced countries put virtually all documents intended for public consumption online. That gives the citizen-consumer everything he might want, along with much that he probably doesn't. Even e-backwaters such as Turkmenistan or Myanmar provide things like visa application forms on the web, although in other respects they may be invisible online.

It goes without saying that simply providing information is no guarantee of good government (being able to download a form does not mean that the embassy will be efficient, let alone that the applicant will get a visa). All the same, it marks a huge change. Just as scarcity favours corruption, knowledge brings power. Making the right forms freely available is only part of it. More broadly, putting laws, regulations, parliamentary debates and the details of state budgets online makes maladministration harder. Those outside government can ask sharper questions about its decisions and be more confident about making their own. Those inside government have less excuse for misrule.

The flagship project of this kind is America's usa.gov, a multiple award-winner and probably the best single e-government website in the world. It sticks chiefly to providing information. Although it also offers 100-plus online services, these turn out mostly to be links to other sites where you can renew a passport, contact an elected official or download a Polish-language visa application form. It is complemented by a family of other sites, such as benefits.gov, which offers information about every part of the largesse that the taxpayer directs to the needy.

My country, right or wrong

Yet even in this relatively straightforward task of making public information properly public, technology offers plenty of scope for blunder. In its most recent annual report on the world's government websites, America's Brown University catalogued an array of mishaps found last year. For example, the website of Chad's embassy in Washington, DC, had been taken over by a cheeky business, as had that of Libya's mission to the UN and Timor-Leste's ministry of justice. In Nepal, the ministry of industry and commerce, mentioned on the main government site, had no active links. The latest “news” story on the site of Laos's embassy in Washington, DC, dated from 2006. Tonga's national portal offered links such as “about us” and “quick facts” that did not work. Mexico's site for “agriculture/hunting/fishing/rural development”

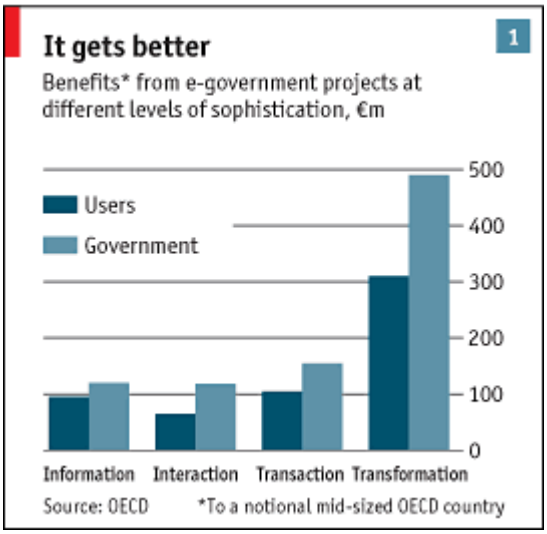
provided links to an “English” option that led nowhere. And some sites carried advertising suggesting a surprising degree of official entrepreneurship: Bolivia's portal, for instance, had a banner ad for passion.com, which promised “sexy personals for passionate singles”.

Even if government websites are not actually wrong or dysfunctional, they are seldom designed with the outsider in mind. For a start, they are often far too numerous and poorly linked. In Britain, Alex Butler, an e-government chief, has closed 551 of the 951 central-government websites that existed in early 2006. No new ones are permitted. The aim is to shift content onto directgov, the British government's central information point, and to a sister site offering online public services to business.

But directgov has its critics too. William Heath, who runs a witty blog on government reform, idealgovernment.com, describes the website as a “random generator of self-referential public-service information”. That may be a bit unfair. Directgov's managers agree that the site's search engine needs improving, but argue that its main role is to package information into useful clusters: “coherent citizen-focused topics”, in e-government-speak.

Yet government websites rarely fit the way that people actually use the internet. A Google search for “UK” “government” “childhood” “obesity” and “help” brings up a site that links to some mildly interesting statistics, but the excellent “children and healthy weight” page on directgov does not come up among the first 100 results. France, which prefers the term “transformation” to “e-government”, has put impressive swathes of government information onto a well-presented and well-designed website.

Companies have mostly understood that visitors to their sites do not necessarily come through the front door. Their websites cater for the fact that consumers often start internet shopping by searching for a particular product or going to a price-comparison site. Governments, by contrast, do not “optimise” their websites to make them easily readable by outside search engines; indeed some actively discourage the idea—for example, by making information available only to registered users.



So even the apparently simple task of publishing well-presented and logically arranged information on the web turns out to be surprisingly difficult—and remains incomplete. The Organisation for Economic Co-operation and Development has defined four stages of e-government, each more demanding than the last. After information comes “interaction”, then “transaction” and eventually “transformation” (see chart 1). The more transformational the change, the bigger the benefits. But it turns out that, at all stages, the biggest beneficiaries will be governments, so they may have to work at persuading users to accept the changes.

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The good, the bad and the inevitable

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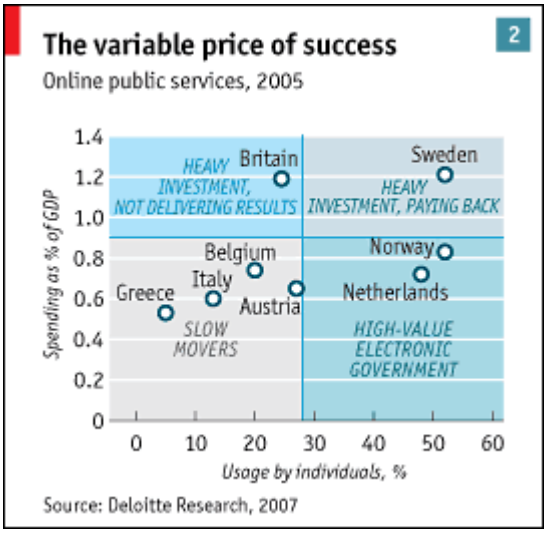
The pros and cons of e-government

A PRODIGIOUS amount of money has been spent worldwide on putting government services online, but the results so far have been hard to measure and often disappointing (see chart 2). Accenture, a consultancy that pioneered the business of selling technology services to government, has been publishing reports on the subject since 2000. The titles give a flavour of the industry's struggle to balance promise and performance. In 2001 it was “Rhetoric vs. Reality: Closing the Gap”, followed by “Realising the Vision” in 2002 and “Engaging the Customer” in 2003.

By 2004 the term “e-government” was becoming stale. Greg Parston of Accenture says the company now places “much greater emphasis on outcomes for citizens”. The series of reports has been renamed the “Government Executive Series”, but the titles remain as aspirational as before: “New Expectations, New Experience” (2005), “Building the Trust” (2006) and “Delivering on the Promise” (2007).



Many other companies are publishing similar reports—and trying to make the most of public-sector technology contracts, which Fadi Salem of the Dubai School of Government wryly calls “the goose that lays golden eggs”. Not-for-profit bodies such as the United Nations, the World Bank and the OECD, a raft of universities and think-tanks and most rich-country governments also offer their thoughts on the subject. Most of them make similar points, and almost all use the same jargon.

Accenture's 2007 report, for example, highlights four “pillars of leadership in customer service”: a “citizen-centred perspective”, a “cohesive multi-channel service”, “fluid cross-government service” and “proactive communication”. Translated, the message is pretty sensible. The “citizen-centred perspective” is shorthand for the good point—so far largely ignored in e-government design—that setting up new electronic systems only to mimic the old offline ones is a bit of a waste of time.

The big advantage of new technology is that it can turn bureaucracy inside out. Well-run businesses, for example, do not see customer complaints as a nuisance; instead they use the data gathered from websites and call-centres to fine-tune the products and services that they offer. Governments could do the same. Just as businesses do not expect customers to deal separately with finance, logistics and sales departments, someone registering a newborn child should not have to worry about the way in which the tax authorities, social-benefit administration, health service, education system, census department and local government may use the information. A good e-government scheme starts off from the citizen's eye view, not the bureaucrat's one.

Similarly, a “cohesive multi-channel service” simply means that whether you make contact by internet, telephone, letter or personal visit, you should get the same efficient service. That is something the private sector already does pretty well: you can shop by looking at a catalogue or browsing in a bricks-and-mortar store, then order online, phone with a query, receive your goods by post and take them back to a shop if there is a problem. But governments still find that sort of integration difficult to achieve.

In principle, there is not much argument about the desirability of putting government online. Technology helps to make public administration more open, more responsive and cleaner. Taxpayers save money. Citizens get better services. Democracy is revived. Rich countries already have the broadband penetration, computer literacy and skilled bureaucrats needed for sophisticated e-government, but poor countries may gain even more: technology may allow them to vault into the modern age, shedding the wasteful, incompetent and corrupt public administration that is often the greatest barrier to their development.

Name and shame

Samia Melhem, a senior World Bank official, explains that i-government does not just mean more user-friendly services but can also make the “lack of governance an unsustainable act”, at least in countries where corruption is not completely pervasive. “People cannot steal public funds for too long when some system is put in place to control and disseminate the information about the theft. Shame is a powerful deterrent and often overcomes greed, especially when you have children and friends who read newspapers.”

So far, though, the story of e-government has been one of quantity, not quality. It has provided plenty of reason for scepticism and not much cause for enthusiasm. Whereas e-commerce has been a spectacular success, transforming industries as diverse as travel and book retailing, e-government has yet to transform public administration. Indeed, its most conspicuous feature has been a colossal waste of taxpayers' money on big computer systems, poorly thought out and overpriced.

Britain, for example, has wasted £2 billion in the past seven years on projects that have ended up being cancelled and written off. The failure of government computerisation projects is so routine that it no longer excites much comment. In January, the British government sharply cut back a programme to merge the 200-plus databases used by the 80,000 staff in the criminal-justice system. Called C-Nomis, the project was originally supposed to cost £234m. By the time it was scaled back to cover the prison service alone, its cost had doubled to £512m.

More often, though, big government projects stagger into operation but work badly. Surprised that they work at all, few people ask whether the money was well spent. Only rarely do the promised benefits materialise. Some of those who have studied e-government call it a “dangerous enthusiasm”: a technological quick fix that distracts from the real tasks—hard and slow—of reforming government and running public services properly.

Digital have-nots

But even where e-government works efficiently, it does not automatically bring more fairness and openness. Putting public services online is no use to those who cannot afford a computer or will have nothing to do with technology. The phrase “look on our website” is a turn-off for a significant chunk of most countries' population. Where the internet is used to increase public participation in democracy, the problem is sharper still: the articulate and—literally—well-connected have an even louder and more effective voice; those at the margins go unheard.

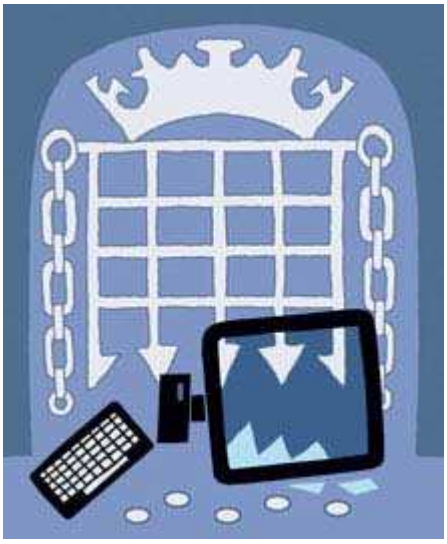
E-government also comes at another cost. Stripping out lots of low-paid, low-skilled jobs in government adds to the problems of a section of the workforce that, especially in rich countries, already resents the march of progress. Just as technological change has stoked protectionist sentiment in the private sector in rich countries, modernisation of government can seem threatening and unfair to those who work in the public sector.

Moreover, efficient government can be repressive government. In Germany, and many other countries, the law says that people must tell the government where they live. In America, that would be an outrage. Face-recognition software, remotely readable chips in passports, recognition technology for car number-plates and biometric identity checks offer endless possibilities for controlling the citizen. George Orwell's “1984” is an example of malign e-government: a screen in every dwelling monitors the inhabitants' doings with an efficiency that would thrill today's operators of CCTV systems. Similarly, the use of electronic media to refine and project Big Brother's message is the envy of spin-doctors in Whitehall or Washington, DC. Technology may have given citizens a bit more information about government, but it has given government a lot more information about them, for good or ill.

Illustration by Allan Sanders

Perhaps the biggest worry of all is that bad e-government is worse than useless. When humans make mistakes, you can argue with them. When a computer insists that you owe the government money, your car is illegally parked or you do not exist, unscrambling the problem is much harder. Similarly, when records were kept on paper by real people, the scope for error was limited. At worst, a drawerful of confidential information might be thrown away by accident and end up on a rubbish dump. Data might be wrongly entered or incorrectly filed

and never found again. That was unpleasant for the individuals concerned, but usually nothing worse.



Digital mistakes can be much more serious. In November 2007, for example, the British government managed to lose two discs of data containing the (unencrypted) personal and financial details of 25m households. Nobody has been able to explain why the data—which were being sent from one part of the public sector to another—were not transmitted using the secure government intranet, a computer network specially designed for this sort of job and established at the cost of tens of millions of pounds. In the hands of fraudsters and identity thieves, the sort of data that a government can collect by law could be misused with disastrous results.

Those most closely involved in e-government are aware of the problems. As the 2007 Accenture report points out, they have become extremely cautious about what they can deliver in the short term. “After the splash of creating exciting visions and promises of truly citizen-centric government services, many governments now...find themselves...playing catch-up on a promise that citizens expect to be fulfilled...The essential infrastructure work that comes next is unlikely to capture the imagination of citizens and the media. It is hard work, plain and simple.”

Bang for the chip

The world of e-government is eagerly awaiting a hefty tome that the OECD is planning to publish in 2009. “Government at a Glance” will be the latest addition to a range of international comparisons that the organisation publishes every year. The OECD's sharpest analysts and statisticians are now trying to crack a question which seems blindingly obvious yet which hardly anybody to date has tried to answer properly: what are the costs and benefits of e-government?

Australia is one of a small handful of countries (which also includes Britain) that have tried to assess the aggregate effects of e-government. The answers were mixed. Australia's National Office for the Information Economy in 2002 found that the majority of 38 e-government projects surveyed were likely to make things cheaper and more convenient for officials, users or both. But for the 24 projects that were expected to result in specific cost reductions or higher revenues, the total investment of A$108m produced a saving for the government of only A$100m. That is not disastrous, but does not suggest that e-government is an easy way for the state to balance its books.

E-government rankings are thick on the ground: at least a dozen are produced, including one on “e-readiness” by the Economist Intelligence Unit, a sister organisation of this newspaper. But they have their limitations. The OECD (which has an interest in carving out its own niche) calls them bean-counting exercises that measure the number of web pages, level of internet penetration and the like, but without assessing whether the online activities make any sense for the country concerned. Depending on the weighting given to factors such as online privacy policies, the rankings can look ludicrous. The study from Brown University, for example, puts Sweden in 60th place, behind Kazakhstan, which rates 57th.

The costs of e-government are not all that difficult to pin down. Taxpayers fork out for new computers, software and (often most expensive of all) consultants. Individuals and businesses have to get used to the new system and deal with the inevitable teething troubles, which leaves them less time to do other, more productive things.

But what of the benefits? The most obvious one is to reduce the burden for citizens, taxpayers and so on of dealing with government. All of these groups gain a lot from the provision of information online, for example.

However, when technology not just distributes information to the public but collects and uses it as well, the issues become much more complex. Where data-sharing laws permit, individuals and businesses may save money and effort by having to provide information about themselves to the authorities only once rather than many times over. And on the

government side, dealing with people via automated online systems is much cheaper than face to face or on the phone (for a British example, see table 3).

Cheaper through the ether 3

Services of Tameside Borough Council, Greater Manchester, Britain, 2004-05

	No. of customer visits, '000s	Cost per visit, £
Face-to-face	105	14.65
Customer contact call-centre	315	1.39
Self-service on website	680	0.25

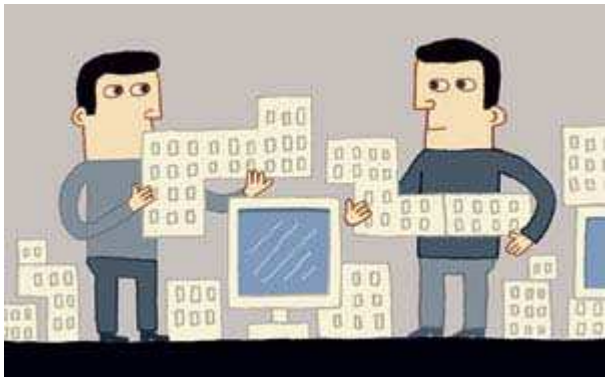
Source: Tameside Borough Council

But whereas private-sector organisations can insist that all their customers use the internet, governments have to keep all channels of communication open. Even in countries with high rates of computer literacy and deep internet penetration, a minority of people will want to go on using other means. And in most countries the heaviest consumers of public services, the old and the poor, are the least likely to use the internet. If all services have to be provided both on- and offline, the saving may not match the cost of the new technology.

The main exception to this is in tax administration, particularly with businesses, which have no vote and, at least in rich countries, can be assumed to have internet access. Some countries, including Britain and France, require most businesses to file tax returns online and pay electronically, and there have been few complaints. But governments should not hang their hopes too high. Edwin Lau of the OECD cautions: “Even when governments are able to demonstrate likely financial returns from potential e-government projects, there is no guarantee that such benefits will be actually realised, or that they will be available for allocation to other priority areas, spent internally or returned to taxpayers.”

Fortunately there are also non-financial benefits to e-government. Simply demonstrating to the public that government works cleanly, quickly and efficiently could pay off in votes for the politicians who have pushed through the necessary reforms, and perhaps in the public's greater willingness to pay taxes. It is likely to increase trust and reduce perceptions of corruption. Such measures play an important part in countries' global competitiveness rankings, and a good performance in this area makes a country more attractive to foreign investors.

Illustration by Allan Sanders



E-government also creates new businesses by giving firms the chance to add value to government services. In India, for example, so-called “e-touts” have taken up the role once played by village scribes. In Finland, an industry of data brokers has sprung up. Originally contracted by the public authorities to collect financial data from businesses, they have turned to selling data-management services to the private sector.

But so far, governments have mostly been using technology for projects where public support is likely to be strong and opposition low: putting information online, simplifying tax administration, sprucing up a country's image. Few have even started to tackle the really big task: reshaping government in order to take advantage of the immense possibilities that technology now permits.

Deep reforms are likely to be painful and expensive in any organisation, and doubly so in the public sector with its entrenched interests and often weak management. The risk for policymakers is that they may have squandered goodwill by their mistakes at the beginning and will now find it hard to convince people both inside and outside government that new investment in big changes is justified. As the OECD noted in a report, “E-Government for Better Government”, published in 2005:

> The next stage of e-government activity is likely to involve more e-government initiatives that develop services and solutions based on the redesign and joining up of back-office business process and systems. This will be more complex and challenging, possibly more

costly, and potentially more risky, especially because required changes may be quite disruptive of established public-sector structures, culture and management arrangements. Benefits of these initiatives are likely to be less readily apparent to policymakers and outside observers.

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Notional Health Server

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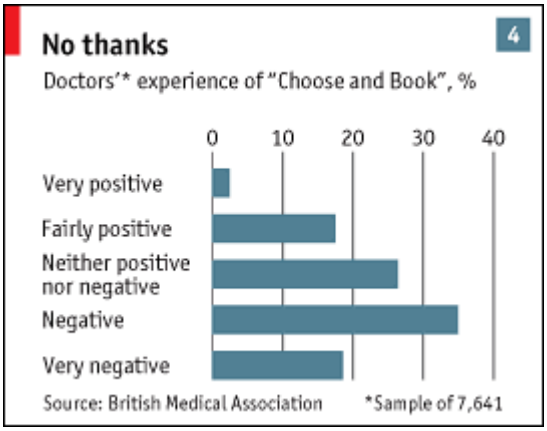
From The Economist print edition

A flagship service adrift

TO SEE how frustrating the wrong kind of e-government can be, look at “Choose and Book”, the flagship project of Britain's £12.4 billion ($25 billion) programme “Connecting for Health”—the world's biggest non-military government computerisation programme. The aim is bold and inspiring: to allow patients in the National Health Service (NHS), advised by their doctors, to choose the treatment they want, and book an appointment when they want it.

Three years into the programme, the reality is proving rather different. The British Medical Association, the trade union for most British doctors, calls it a “gimmick”. Most doctors dislike it (see chart 4).



At the Lavender Hill Group Practice in south-west London, a general practitioner (GP), Dr Helen Lucas (who happens to be your correspondent's sister), is dealing with a baby suffering from a potentially serious abnormality. The practice is a typical “gatekeeper” in the NHS. Most patients are treated on the spot. Those requiring specialist help are referred onwards, so the practice is both a service provider and a steward of scarce resources. In other countries, access to specialist doctors is rationed by price, or by insurance companies. In Britain, the patient chooses—at least in theory.

The practice's own software is working fine, but the logon to Choose and Book is painfully slow, taking a full minute. The menu of ailments, from Allergy to Urology, includes nothing that neatly fits this patient's problem, even if the doctor knows who the right specialist is. In the old days, she would have sent him a letter explaining the problem and providing the details, and the patient would be given an appointment. That system was not perfect, but it generally worked.

The Choose and Book screen should now offer a comprehensive list of medical specialisms so that the GP can choose either a named consultant or a particular hospital. But at this particular surgery it presents a series of choices that cause problems rather than solving them. Psychiatry is offered, for example, but no online appointments are ever available. And whether the appointment is booked as “urgent” or “routine”, the result is exactly the same. Sometimes the computer says the waiting time is “unknown”, meaning that the patient will have to call the hospital directly.

With some laborious trial and error and a lot of waiting, it is possible to make Choose and Book work, more or less. Dr Lucas reckons that about one in ten of the appointments she makes this way turns out fine, but even then the process consumes two minutes of a typical ten-minute appointment with a highly paid and expensively trained doctor who is acting, in effect, as a secretary.

NHS insiders admit that Choose and Book had a difficult birth, but reckon that most of the problems have been resolved. Critics agree that the system has improved, but think it is far too dependent on everything going right—for example, that the local Primary Care Trust, the bottom and most underpowered layer of the NHS bureaucracy, installs the right hardware, and that hospitals present their menus properly online. Articulate middle-class patients may be able to make their own appointments, but the confused, timid or disorganised may not. They will simply return to the GP a month later with the ailment still untreated.

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Making it happen

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From The Economist print edition

Technology is only half the battle

THE municipal administration of America's District of Columbia was once a byword for bad government, with a cocaine-snorting mayor, corrupt police and incompetent and demoralised bureaucrats. Now, under a go-ahead mayor, Adrian Fenty, it has become a model practitioner of e-government. The public face of this is a single portal, dc.gov, which allows residents to do almost anything that in the past would have involved either picking up the phone (and hanging on and on) or going to an office and waiting. The site not only lets them find out about every imaginable aspect of the city, but also provides them with a means of acting on the information. This is not just a matter of printing out forms, but often of filling them in and submitting them online too. It is possible to renew a driving licence, pay a parking fine, report broken traffic lights, request a visit from the rubbish-collection service, get all manner of permits, see planning applications and pay local taxes.

In his “war room”, the size of half a tennis court, Vivek Kundra, the district's Indian-born, African-raised chief technology officer, points to some of the woes that the new administration inherited: hundreds of computers bought for the schools in the district but never used (and now obsolete) because the inventory managers lost track of them; 4.6m unsearchable paper records of DC employees, some of them in a total mess. By contrast, his display of the state of the administration as it is now seems sheer magic. The day-to-day work of the DC government is shown on simple spreadsheets, with new tasks requiring action appearing on panes with a yellow background. When the tasks have been accomplished, the panes go green. If a job is not done by a set deadline, the pane goes red and the employee's supervisor is automatically notified.

A typical entry records a problem with the head teacher's e-mail at a school in the north-east of the district. A named technician has been to attend to it and repaired a faulty cable. The head teacher is satisfied. Green reigns.

Running the district in this new way is not expensive, except perhaps for the huge plasma screens on which Mr Kundra displays his wizardry. “A little bit of money can go a long way in terms of technology,” he explains. DC owns no servers. Instead of paying $50 a month per head for commercial software, its employees use the word processor, spreadsheet and e-mail provided free in seconds to anyone who signs up with Google. With extra storage space, security and a different label stuck on it, that costs $50 per employee per year. Everything—including those millions of records, all now scanned and indexed—is in what Google calls the “cloud”: stored somewhere on its vast farms of powerful computers rather than at the DC offices. Using off-the-shelf software marks a big difference from traditional e-government in which security-conscious, risk-averse officials start by commissioning consultants to draw up a tender and go on to buy an expensive tailor-made system running on costly in-house computers.

Mr Kundra applies the same ruthless approach to hardware. The DC police officers are now trying iPhones in place of police radios, crackly and temperamental, that cost $6,000 apiece. By integrating the cellphone signal with the free map and satellite picture provided by Google, the control room is also able to keep track of the patrol cars. Landlines are being ditched: employees are given a budget and told to buy their own cellphones. Mr Kundra cites Adam Smith's “invisible hand”: just as in the private sector, technological innovation works only when the market wants it. His office must “demonstrate value”, he says, not simply force other agencies to use new technology by administrative fiat.

Rethink from scratch

One big lesson is that e-government is not just about computers; it involves redesigning the way government works. When he started the DC job, Mr Kundra was puzzled to find that it took four weeks to take on a new employee. Once the decision to hire the candidate had been made, the paperwork trundled back and forth between finance, human resources and other departments until everybody had signed off on it. By redesigning the process—and tracking it through his system of coloured panes—Mr

Kundra has cut the time taken to a mere 48 hours.

Now he is putting the procurement process online. The first project is a new warehouse for the police to store evidence collected at crime scenes. The centre of the tender is a Wikipedia-style page on which potential bidders (and the general public) can download information about the project as well as ask questions.

It is far too early to declare the DC system an all-round success. Putting a user-friendly front end on a bureaucracy is good news for citizens, as is using cheap software to monitor it more effectively, but neither solves underlying problems. Much of what Mr Kundra has done so far involves measuring the district's problems more precisely rather than solving them.

His next big task, sorting out the often appalling public-sector schools, will be tough. Using technology to get janitors and maintenance staff to deal with leaking roofs and broken toilets will help, and thousands of new computers have already arrived at the schools (bought cheaply direct from Dell, rather than through a dealer). His systems will give a far more precise picture of truancy rates, security problems, teachers' absences and incompetence and the way all these factors interact. But they cannot make the problems disappear.

Illustration by Allan Sanders

A number of other American cities have made similar efforts, but scaling this up to a national level is difficult. For a start, municipal governments have a natural advantage in not having to worry too much about security. If a hoaxer sends the dustmen to the wrong address, little damage is done. And residents have a lot of dealings with local governments, so they know how the system works. For most people, central government is a lot more remote: the OECD reckons that the average citizen in advanced countries conducts business with it only about twice a year. That is not enough to build familiarity. Moreover, transactions with central government tend to be more serious and involve a higher degree of confidentiality.

Small bureaucracies are also a lot easier to refashion than large ones. Mr Kundra's task looks positively pocket-sized compared with the job facing Karen Evans, America's e-government tsarina, a few blocks away at the Office of Management and Budget. Instead of plasma screens, she uses a large cardboard chart on which each of the 18 federal agencies she monitors is scored with two coloured circles, one for effort, the other for achievement. For her annual meeting with the federal government's chief information officers, she bakes cupcakes and ices them with the appropriate colours: green for excellent, yellow for adequate, red for bad.

She says America has not done badly on “e-government 1.0”, providing its citizens with information. Making the rest happen, she admits, will be a lot harder. That is because the use of technology by large-scale government runs into big questions: what data should be held on citizens, with what level of consent, how the data should be stored and shared, and how people should identify themselves when connecting with the system.

Tread softly

“E-government”, says the canny Mr Lau of the OECD, “works best by stealth.” He is only partly joking. Probably the worst way to put technology into government is for politicians to announce a revolutionary scheme with a loud fanfare, after which inexperienced and timid civil servants hurriedly draw up a tender and award it to the lowest (but probably not the most competent) bidder. Work starts, but political pressure causes the specification to change, so costs spiral and disillusion grows. The project either limps into life, infuriating everyone by its poor performance, or is expensively buried.

What is clear is that e-government works best in rich countries where government is competent to start with. The business of dividing the affairs of government up into their component parts, reassembling them to suit the users and building in effective self-criticism is something that even highly trained, paid and motivated bureaucrats in advanced countries such as Singapore and Sweden do not find easy. It is a huge struggle for less privileged countries whose bureaucracies are barely up to running their existing system.

Still, the experience of the past ten years suggests a common pattern of which all countries, rich and poor alike, should take note. Centralised schemes tend to work much less well than decentralised ones, and competition is vital. In Dubai, the star of e-government in the Middle East, central government provides some of the building blocks, such as a secure electronic payment system or digital identities, but does not mandate particular standards or technologies. The only central stick is that wielded by the country's ruler, Sheikh Mohammed bin Rashid Al-Maktoum, who hands out rewards to the successes and public rebukes to the laggards.

Other kinds of competition are at work too. Within the United Arab Emirates, Abu Dhabi, for example, is jealous of Dubai's success in attracting foreign investors, who like e-government for its simplicity and ease of use. So Dubai itself has to run fast to stay ahead. The UAE, for its part, competes with up-and-coming regional rivals such as Qatar and Oman, as well as with laggards such as Saudi Arabia and Kuwait and with the wider Muslim world.

Fadi Salem, of the Dubai School of Government, highlights two further reasons for his country's success. One is that it has a young, technology-friendly bureaucracy. Dubai in its present form has not been around long enough to have inherited an established public administration with its own ways of doing things. Because of its rapid development, technology is used not as a way of making old things work better but as part of government innovation, such as the introduction of toll roads. Dubai pioneered e-voting in the Arab world in elections for half the members of the UAE's consultative assembly. “Government departments act like private companies: efficient, reliable and accurate,” says Mahmoud Bastaki, chief technology officer of Dubai World, which is responsible for running the country's port (as well as 40-odd others elsewhere).

The other reason why Dubai has done well is what Mr Salem calls a “large reservoir of public trust” in the government's competence and good faith. That has come about partly because the majority of Dubai's residents are expatriates who work there by choice. If they do not like what the government is doing, they can always move elsewhere.

The minority of native-born Dubai citizens, for their part, lead pampered lives and have little reason to complain. Even unpopular moves by the government—such as banning Skype, a free internet-telephony service that would benefit expats calling home but hurt the local telephone cartel—have aroused little protest. It is a similar story in Singapore, where a carefully managed political system has produced a version of e-government that ranks among the most effective in the world. Using a high-strength password, the Singpass, residents can conduct most of their dealings with government online or by mobile phone.

Singapore highlights another factor vital to e-success: the right relationship with the private sector. The Singpass is useful not only for dealing with government but also as a secure digital identity for electronic commerce. It can be used for a range of activities from banking to shopping. In London, the Oyster card, introduced as an electronic ticketing system for public transport, is now available as an add-on to a credit card. In Scandinavia, governments are considering the use of online banking passwords and logins as a way of authenticating users of public services. Another example of successful hybrid e-government, using the kinds of identification that private-sector companies are happy with, is moving.com, which allows Americans to manage all aspects of moving house, from redirecting mail and switching utilities to buying boxes and booking removals.

But all this requires a lot of public trust. Presented with the right incentives, an easy way to opt out if they do not like it and a reasonable assurance of security, citizens jump at the chance of greater convenience by sharing data in this way. But for this trust to develop, governments have to show themselves to be reliable and to act much more flexibly than they have done in the past.

Reaching out

The hardest question for government is how to deal with the part of the population that will not or cannot go online. Glyn Evans, who runs the e-government effort in Britain's second-biggest city, Birmingham, says he has to deal with a portion of households that are “transient and chaotic”, whereas central government in Whitehall imagines a world of “middle-class nuclear families” who move as a single unit. One possible solution would be to give up on this section of the population. If e-government enables the most articulate and productive members of society to save time and money and enjoy better public services, that may be worth having. It may even free officials' energies to take more trouble over the rest. Many governments have adopted that approach by default, although few would admit it.

A second possibility is to try harder to harness technology. Even the poorest of the poor may be able to use a smart card or a mobile phone, giving them a louder voice and a fairer deal. Some time this year the world will pass the point where more than half its population will have a mobile phone. Although mobiles are used mainly as phones and for text messages between customers, they are also powerful computers, offering the previously dispossessed a way into business and finance—and into interacting with public services. M-government (the latest buzzword, now that e-government has lost some of its lustre) allows citizens and the state to deal with each other through pared-down web pages, barcodes sent as pictures and simple text messages.

In some countries digital television offers another way of reaching the computer have-nots. So far, digital-television applications have involved things like voting in game shows or calling up information about a programme. But in principle there is no reason why the same mechanism could not be used by citizens to interact with their governments.

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Identity parade

Feb 14th 2008
From The Economist print edition

It's best for governments not to know too much

Illustration by Allan Sanders

THE internet, argues Kim Cameron, who works as “Identity Architect” at Microsoft, “was built without a way to know who and what you are connecting to”. That is bad enough in the private sector, where the only thing at stake is money. For dealing with government, it is potentially catastrophic. Technology can—just about—tell how an internet user got online. It can check the authenticity of passwords and logins, and validate smart cards or biometric checks. But such data, even if encrypted, can be stolen, borrowed, guessed or intercepted.

Internet users have become used to providing personal information to any convincing-looking box that appears on a screen. They have little idea of either the technology that helps to provide electronic security in practice or the theoretical principles that determine whether it will work. According to Mr Cameron, “there is no consistent and comprehensible framework allowing them to evaluate the authenticity of the sites they visit, and they don't have a reliable way of knowing when they are disclosing private information to illegitimate parties. At the same time they lack a framework for controlling or even remembering the many different aspects of their digital existence.”

So financial institutions and their customers are routinely defrauded by cybergangsters, and there is little legal basis for dealing with cybercrime. Identities are valuable, allowing crooks to empty bank accounts or buy things online. Cybercriminals have been targeting individual internet users with “spyware” (which records keystrokes) and “phishing” (bogus e-mails that trick users into providing personal information online). But the huge databases held by governments would be a much bigger prize. If you know someone's name, address, date of birth, mother's maiden name and bank-account details, you are well placed to steal from them. Medical histories could prove equally valuable.

E-government looks like a potential crock of gold for fraudsters, with huge databases compiled by law, most of them only lightly and incompetently protected, and ambitious plans for even more. The biggest e-government contract anywhere is Britain's £12.4 billion scheme for centralised medical records, which will be held on a database accessible by perhaps 1m NHS staff. Other grandiose plans in Britain include a national identity-card scheme; ContactPoint, a national register of all children in England, which will be accessible by 300,000 people; and a pensioners' bus-pass scheme containing the ages and addresses of 17m people.

Why worry?

Officials and politicians insist that these schemes are safe. Encryption will be strong, they say, and access

controlled. Any attempt to get into a patient's medical records will leave an electronic fingerprint, which will help to protect confidentiality. Maybe. But the history of big databases so far is not encouraging. Critics worry that it will take only one person with the right access to any of the planned databases who is careless or corrupt, and the whole country's records become vulnerable.

Ross Anderson, professor of Security Engineering at Cambridge and one of the government's most vehement critics, argues that local systems are far more secure than national ones. Patient data held at a GP practice may be vulnerable to a security lapse on the premises, but the damage will be limited. “You can have security, or functionality, or scale—you can even have any two of these. But you can't have all three, and the government will eventually be forced to admit this. In the meantime, billions of pounds are being wasted on gigantic systems projects that usually don't work, and that place citizens' privacy and safety at risk when they do.” Richard Clayton, a fellow-campaigner, says that personal information should be treated like plutonium pellets: “Kept in secure containers, handled as seldom as possible and escorted whenever it has to travel. Should it get out into the environment, it will be a danger for years to come. Putting it into one huge pile is really asking for trouble.”

Public paranoia about government databases may well be justified, but it sits oddly with the complacency, verging on carelessness, that people display when convenience is on offer. Ask the average traveller from a developed country whether he would like to be fingerprinted by an authoritarian regime and have the results stored indefinitely in its computer, and he will probably say no. But when such procedures save time, scruples go out of the window.

Travellers standing in the lengthy visa and immigration queues at Dubai airport face a phalanx of bored and sullen officials who communicate by hand gestures and grunts, with nary a “please” or “thank you”. But passengers with an “e-card” fare much better. They go straight to the “e-gate” where they swipe their card, press a finger on the glass panel and smile at the camera. The partition opens and they walk into the outside world, an hour richer. It is the sort of treatment that at most airports is reserved for first-class travellers and VIPs. But the e-card costs only a few dollars, takes a few minutes to apply for and is available to anyone. All the traveller needs is his passport and a willingness to trust the country's feudal rulers.

The voluntary principle

The hard lesson for governments is that citizens will adopt technology when it is both optional and beneficial to them, but resist it strenuously when it is compulsory, no matter how sensible it may seem. To take another example, if users of public transport in London were told that in future all their trips would be logged by the authorities, they would revolt. But offered lower fares if they use an Oyster card, issued by a branch of government called Transport for London, they have few objections. Nor do they seem to mind much that the same body photographs their car every time they visit central London on a working day to enforce the capital's congestion charge.

Oddly, people seem to mind even less about how much information the private sector holds about them. Supermarket loyalty cards record all their purchases, however revealing, and search engines note everything they have been looking for on the internet. People who would strongly resist giving any personal information to the government are quite happy for Google to know that they have been searching for “hot Asian babes”. The result, says Microsoft's Mr Cameron, is pernicious. “Hundreds of millions of people have been trained to accept anything any site wants to throw at them as being the 'normal way' to conduct business online.”

Cybercrime discredits the use of the internet not only by business but by government too. Mr Cameron suggests rethinking the whole issue, starting from the principle that users may be identified only with their explicit consent. That sounds commonsensical, but many big government databases do things differently. Britain's planned central records for the NHS, for example, will assume consent as it combines all the medical records held in local practice databases.

The second principle, says Mr Cameron, should be to keep down the risk of a breach by using as little information as possible to achieve the task in hand. This approach, which he calls “information minimalism”, rules out keeping information “just in case”. For example, if a government agency needs to check if someone falls into a certain age group, it is far better to acquire and store this information temporarily as a “yes” or “no” than to record the actual date of birth permanently, which would be much more personal and therefore more damaging if leaked.

Third, identity systems must be able to check who is asking for the information, not just hand it over. How easy it is for the outside world to access such information should depend on whose identity it is. Public bodies, Mr Cameron suggests, should make themselves accessible to all comers. Private individuals, by contrast, should be protected so that they have to identify themselves only temporarily and by choice.

Some existing technologies are not capable of making such distinctions. Examples include Bluetooth technology (in which gadgets such as mobile phones constantly broadcast their availability) and RFID (radio frequency identity) chips. These tiny, remotely readable devices have already been incorporated in many countries' passports, despite plentiful evidence that they can be remotely read, deciphered and even cloned with easily obtained equipment and software.

The final principle is a thorough understanding of the human factor. As Mr Cameron notes, “we have done a pretty good job of securing the channel between server and browser through the use of cryptography—a channel that might extend for thousands of miles. But we have failed adequately to protect the two- or three-foot channel between the browser's display and the brain of the human who uses it. This immeasurably shorter channel is the one under attack.” When it comes to government data, a loosely guarded password can cause untold damage. Officialdom and the public alike have yet to that take on board.

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E for express

Feb 14th 2008
From The Economist print edition

Countries like India may leapfrog the rich world

Illustration by Allan Sanders

AS IT becomes clear that getting entrenched rich-country bureaucracies to move towards e-government will be slow and difficult, hopes are turning to poorer countries. Not that their bureaucracies are intrinsically more promising. Even under British colonial rule, Mahatma Gandhi was a severe critic of Indian officialdom. His words of advice are displayed in public offices all over India:

> Who is a customer? The customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption of our work. He is the purpose of it. He is not an outsider in our business, he is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.

Those words have been honoured much more in the breach than the observance. Standards of public administration in India are appalling. Billions of dollars are spent on subsidies and doles. When Rajiv Gandhi was prime minister in the 1980s, he once speculated that 85% of them did not reach their intended target. Nothing much has changed since those days.

The current holder of the top job, Manmohan Singh, says the handouts bring “neither equity nor efficiency”. The public school system leaves a third of its pupils illiterate. The public health system does not provide even the most basic cover. Roads in rural areas are barely passable. Cities are choked with unmanaged traffic. The land-records system is in chaos. If you own some vacant land, it is a good idea to paint your name on the fence in large letters to reduce the chance that a huckster will sell it to a third party. Time, money and human potential is wasted on a grand scale.

But—slowly—that is changing. The hotbed of e-government in India is the southern state of Andhra Pradesh, which pioneered e-seva, a network of public internet offices where citizens can pay bills online. That may not sound much to be thankful for, but for anyone with memories of the previous system it is a giant step forward. Paying an electricity bill could easily involve a day's wait at a government office where a cross official would demand a bribe for doing his job.

The same was true for phone bills, water bills, taxes and all other interactions with government. Often the customer would first have to go to a bank to get a banker's draft and then take it to queue at the payment office. Even a small firm would need an employee whose sole task was to pay bills and deal with other aspects of officialdom.

Online bliss

Now all this can be done online. Those who have computers and credit cards can go to esevaonline.com, those without can visit an e-seva centre. Although getting a birth certificate or a passport remains pretty difficult (of which more later), at least paying for such things has become easier. Critics say that e-seva has simply put a user-friendly front on a collection of government agencies that remain deeply inefficient. Yet compared with what went before, even this modest improvement has transformed the lives of millions.

In Andhra Pradesh, e-seva now processes 110,000 transactions a day, worth 110m rupees ($2.8m). Those numbers are growing by 25% a year. Some 60% of all payments for public services in the state are electronic. “We are moving from in line to online; people want to communicate not commute,” says Suresh Chanda, the state official responsible for e-government.

And that is only the start. The state government wants to extend the network of e-seva centres from the current 119 to 4,600 across the state, one for every six villages. The plan is to use existing post offices: these days, chuckles Mr Chanda, they have little to do.

None of this involves the state in running anything: e-seva, like most successful providers of public services in India, is outsourced. A private contractor recruits the staff, provides the computers and premises and keeps the customers happy. In return, he receives a small commission on each payment. E-seva also provides other services: you can transfer and collect money through Western Union, for example, or buy railway and cinema tickets.

The contract for e-seva has just changed hands after six years. The winner of the tender will be offered incentives to run it even better. If a customer has to wait for 15 minutes, the commission will halve; if the wait is 30 minutes, there is no commission. The next stage will be to widen the scope of the system. A pilot project in early 2008 will allow people to apply for driving licences online instead of queuing.

But the most important move is to make the mobile phone, rather than the computer, the platform for payment. This is possible because in some respects banks in India are already streets ahead of their counterparts in richer countries.

Passengers arriving at the airport in Hyderabad, the capital of Andhra Pradesh, are greeted by an advertisement for a bank account that allows payments to be authorised by a biometric identifier: a thumbprint. Such systems are convenient for the busy middle classes and those who habitually forget their PINs, but they also have wider application in a country where up to half the population may not be literate (though most are probably numerate). From early 2008, two go-ahead banks will offer e-seva services by “m-banking”. Customers will be able to pay bills by sending an SMS and a security code.

The m-word

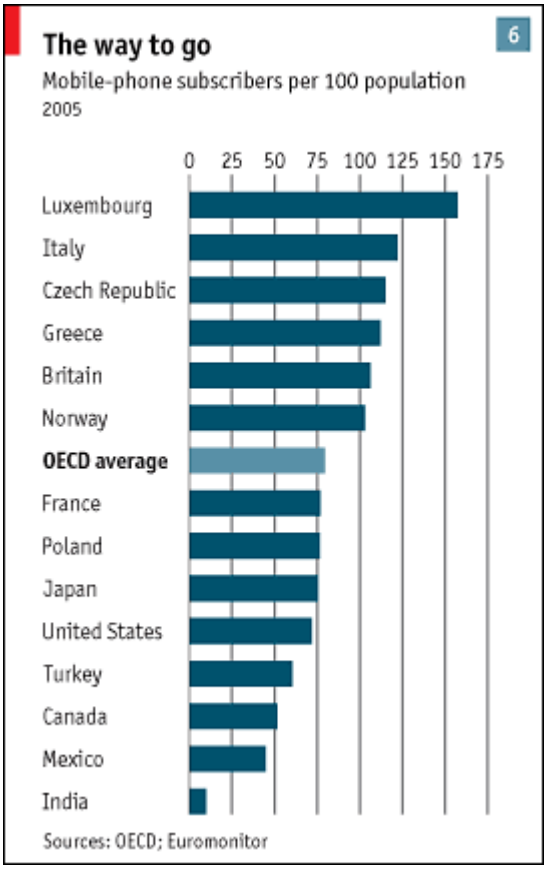
But that is not the only use for mobile phones as computers. A pilot project in Andhra Pradesh that started in mid-2007 aims to improve the mechanism for paying pensions and unemployment benefits to around half a million people in villages in the Karimnagar and Warangal regions of the state. These are arid areas where the main (and usually sole) source of employment is subsistence agriculture. Public services are patchy and roads awful; schools are free but bad; there is basic health care but no nearby hospital.

The payments involved are small and 70% of the target population are illiterate. The existing system is both expensive to administer and time-consuming to use. It involves presenting a ration card and an account book at a bank, which may involve several hours' travel to get there and several more hours' queuing. Alternatively, the payments can be disbursed by the local village council. But a large proportion of the money may not reach the intended beneficiaries.

Crucially, however, the mobile-phone signal has excellent coverage. The new scheme, the brainchild of the National Institute for Smart Government (NISG), does not require the recipients to travel. Instead, they have smart cards incorporating their fingerprint and photograph. A payment agent, equipped with a terminal, comes round to check the cards and disburse the money. The cheaper version works offline, with data loaded into the terminal. The more expensive kind includes a mobile phone that checks identities against a

central database. The payment agent is a trusted local figure who has to be at least semi-literate, and is rewarded with 0.5% of the value of each transaction.

The scheme is now metamorphosing into an online bank. In some areas the recipients are able to store some of their money online, withdrawing only as much cash as they need there and then. It is a tiny start—so far some 40,000 cards have been issued—but the potential is clear.



E-government is slowly spreading across India, transforming the public's experience of government as it does so. Take railway tickets. Until the deregulation of air travel in the mid-1990s the train was the only sensible way of getting around India, but ticketing became a cesspit of corruption. Ticket clerks routinely hoarded long-distance tickets to create an artificial scarcity and then sold them at a profit. But since 2002, when the railway authorities put the ticketing system online, corruption has virtually disappeared. You go to the website and click on the train you want. The computer tells you what seats are available or how long the waiting list is. You can pay by credit card or reserve a ticket and pick it up at a station.

All this has started a process of internal competition that ratchets up the efficiency of every public agency. Other state governments, such as Gujarat, are fast catching up with Andhra Pradesh, which is having to run ever faster to stay ahead. The federal government is getting keener too. It plans to open 100,000 “common service centres”—in effect, stripped-down versions of e-seva—across India by the end of 2008. It has made online tax returns mandatory for companies and introduced legally binding digital signatures (something that many Western countries are still struggling with).

The prime minister has also ordered a complete overhaul of the nightmarish process of applying for a passport. This typically requires the applicant to assemble 11 documents (including birth certificate, proof of address and police conduct certificate) and spend at least a day queuing in a crowded and squalid passport office. The document itself can take as long as six months to appear. The only way to speed things up is by handing over a bribe, with a going rate of about 1,000 rupees ($25).

Mr Singh has instructed his bureaucrats to cut out the queuing, limit waiting time to 45 minutes and get the passport ready within three working days. The NISG, which is drawing up the scheme for the government, has spelt out just how difficult this will be. The new system, to be run by a private provider under a $300m, six-year contract, will require a complete reorganisation of the present process. All the work involved in issuing a new passport has been broken down into simple, logical steps, and the new passport offices have been designed down to the smallest detail, such as levels of lighting and ventilation and a “tea-coffee nook”. The scheme is due to start next year.

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The road to e-democracy

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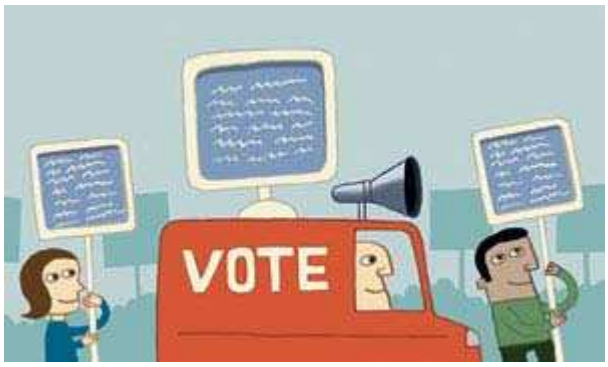
E-government is only the beginning

Illustration by Allan Sanders



GOVERNMENTS have more or less caught up with what in geek-speak is called “web 1.0”, with the online world largely mimicking the offline world. E-mails replace letters; websites make publishing speedier and more effective; data are stored on the user's computer. A collection of programs, paid-for or pirated, are the essential tools for getting going.

But all this has been overtaken by “web 2.0”, shorthand for the interactivity brought by wikis (pages that anyone can edit) and blogs (on which anyone can comment). Data are accessed through the internet; programs are opened in browser windows rather than loaded from the hard disc; instant messages, often attached to social-networking sites such as Facebook, replace e-mail. Web 2.0 also means free video-sharing on sites such as YouTube and free phone calls between computers. These developments allow information to be shared far more effectively, at almost no cost. That gives great hope to the proponents of e-democracy.

Citizens are not only the state's customers; they are also its owners. The term often used in the jargon of government technology is *citoyen*, reflecting the French idea of the politically engaged citizen. Technology can amplify and aggregate voices that used to be faint and muffled. Voters used to write letters to newspaper editors and hope they would be published. Now they can blog. Contacting an elected representative has become a simple matter of sending an e-mail.

The story so far is that technology intensifies the democratic process, but does not fundamentally change it. For example, the internet is now a vital way of raising money for political campaigns in America, but it has not supplanted the public meeting. Howard Dean's campaign for the Democratic party nomination in 2004 was a huge success in the blogosphere, but failed to translate into votes in real life. The internet has provided citizens with vastly more information about their elected representatives: their voting behaviour, their sources of finance, their outside interests, the content of every public speech they ever made. But the effects tend to cancel each other out. When each side has heavier ammunition, the battle rages on.

Some e-democracy efforts look like little more than gimmicks. Giving out politicians' personal e-mail addresses does not make them any more likely to read the result. Gordon.brown@no10.gsi.x.gov.uk, or president@whitehouse.gov make the recipients seem more accessible, but the message will probably be answered by a computer. Politicians and civil servants who have tried blogging have found it remarkably difficult to be both interesting and sensible. The spontaneous (and sometimes half-baked) tone of the blogosphere sits ill with the need to sound measured and definitive. Most politicians' blogs tend to degenerate into anodyne travelogues. One senior British official, Jeremy Gould, has an excellent blog on e-government. “We think he's been very brave,” says a colleague, carefully.

Where e-democracy may make a difference is in places where the middle class has become largely disengaged from politics. In India, for example, educated people are much less likely to vote than the

rest. Opinion polls suggest that they are disgusted with bad government, but this rarely translates into votes against the incumbent parties.

Yet a few glimmers of hope are appearing. India is developing a caustic and increasingly effective blogosphere. Melody Laila, for example, electronically lambasts the inadequate public services in her native Mumbai, as well as the kid-glove treatment of corrupt politicians in Delhi. “Blogs give us the freedom to say things that wouldn't be published in the mainstream media, and the safety of anonymity,” she says. In a country like India, they may also prove more effective than their counterparts in older democracies. It is hard to imagine a blogger who would wish to promote the cause of corruption and bad government.

Technology offers an opening, too, to outfits such as Lok Satta, a clean-government campaign run by a formidable, *Economist*-wielding doctor called J.P. Narayan. It has recently celebrated its first electoral victory, in municipal elections in Mumbai. Its candidate, an energetic entrepreneur and community activist called Adolf D'Souza, campaigns for decentralisation, transparent online budgeting and public accountability. What made the difference, he explains, was that during house-to-house campaigning he collected voters' mobile phone numbers. That allowed him to send text messages, bypassing the local media which are cosily tied to the established parties.

As you might expect, the place that makes the most advanced use of technology in promoting public participation is America, where officials now invite online comments from outsiders when they draw up legislation on subjects like environmental protection. A Department of Agriculture draft on organic-food standards, for example, prompted more than 250,000 comments. Yet the expertise mostly comes from a narrow range of specialists.

According to Cary Coglianese, an American e-government expert, imagining that online consultation will breathe new life into democracy “is a bit like imagining that giving automobile owners the ability to download technical manuals and order car parts online would turn a great number of them into do-it-yourself mechanics”. Greater involvement by experts may make for more sensible rules, but it will not turn the system of public administration on its head.

Aux armes, citoyens

The sad truth is that most citizens find government and politics rather boring and think they have better things to do with their time. For outsiders, the online world is obscure and complicated. Similarly, the inherent complexity of government risks blocking the gains that technology can bring. Rupert George, who runs a site called eGov Monitor that enthusiasts find fascinating, explains: “All too often, public-sector investment in technology has been wasted by administrations unable to tackle the cultural change necessary to realise its potential.”

In short, badly managed organisations with computers will stay badly managed. That has been the lesson from private business, and it equally applies to the public sector, where e-government has barely begun to scratch the surface of what is possible. That is reason for disappointment, but also for hope.

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Sources and acknowledgments

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Offer to readers

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Aviation

A normal industry?

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Alamy

Much is riding on the possible merger of America's third- and fifth-biggest airlines

Get article background

ONE by one, the obstacles along the runway to what could be one of the most transforming deals in the world's air-transport industry are being cleared. If, within the next few days or weeks, executives at Delta and Northwest succeed in hammering out a common labour contract with their 11,000 pilots, the airlines will declare their intention to merge, subject to regulatory approval.

Were the deal to go ahead, it would almost certainly trigger similar mergers between the rest of the “big six” American network carriers, with United and Continental likely to pair off on one side, and American and US Airways on the other. If, and it is still a big if, what emerged was a stronger, more stable American airline industry, that in turn would be an important step towards completing the stalled liberalisation of the global aviation industry.

It is not the first time that America's big airlines have attempted to join forces. Delta saw off an $8.7 billion hostile bid by US Airways in 2006, and proposed mergers between Northwest and Continental in 1998 and United and US Airways in 2001 were blocked by the competition authorities. But a lot has changed since then. Four of the big six have been restructured under Chapter 11 bankruptcy protection, the industry has reduced its workforce by 39%, wages have been cut by 30% and there has been a $20 billion default on pensions. Even so, and despite booming business and leisure demand and a return to respectable profits in the past few years, the big airlines are still in a fragile state.

Gains in operating efficiency have been partially offset by the huge rise in the price of jet fuel. According to the International Air Transport Association (IATA), airlines' global spending on fuel has risen from $40 billion in 2002 to $135 billion last year. Expensive fuel hits the American airlines harder because their fleets are much older than those in Europe and Asia. The average age of planes in Northwest's gas-guzzling fleet, which includes DC-9s that first flew 30 years ago, is 18 years, for example. In the collective trauma that followed September 11th 2001, the airlines' net debt rose to 20 times operating cashflow. Buying new planes, which are up to 30% more fuel-efficient than old ones, was not an option. And balance sheets are still too stretched to permit large-scale fleet renewal.

What is also concentrating minds at America's airlines is the certainty that 2007 marked the peak of the business cycle for the industry worldwide, and that North America will be the region hardest hit by the recessionary headwinds. Yields (the average revenue per passenger mile), load factors (the share of seats filled) and profits are already starting to fall.

Airline managers also reckon that time is not on their side for political reasons. If there is a Democrat in the White House next year, it may become even more difficult to secure regulatory approval for mergers that will lead to further job cuts in one of the country's most unionised industries. And although there are good grounds for discounting fears that reduced competition will drive prices upwards, a less pro-business administration may be more inclined to heed the inevitable protests of passenger lobbies fearing the closure of routes or a city hub.

Some industry critics are sceptical of the airlines' claims about the efficiency gains that mergers will make possible. They counter that the airlines are already big enough to enjoy economies of scale and that the difficulties of knitting together complex organisations with different cultures will distract managers and divert scarce cash. They also argue that proponents of consolidation exaggerate the boost to load factors that a reduction in capacity will bring. Low-cost carriers, they say, will quickly move to occupy abandoned hubs and routes, replenishing capacity almost as soon as it is reduced.

The success of big airline mergers is certainly not guaranteed. More than two years after their merger, US Airways and America West are still struggling with integration. That said, Air France's experience after taking over KLM, and Lufthansa's after buying Swiss, have been largely positive. Even without trying to integrate their businesses fully, the airlines have cut costs and benefited from economies of scale more quickly than investors expected, so they are now confident of being able to pull off more ambitious deals. Air France even believes it will quickly be able to make money by buying Alitalia, one of the weakest airlines in Europe.

And there are good reasons to think that the Delta-Northwest and United-Continental deals would make sense. For one thing, airline managers have become more professional during the past few years. The visionaries have left the field, and their successors have ruthlessly focused on cutting costs. One measure of their success is that the market share of low-cost carriers appears to have stabilised at around 30%, at least for the moment.

Furthermore, the big network carriers know that their future depends on developing their long-haul business, where there is greater scope for savings, and where the growth of premium traffic continues to buck other industry trends. Delta has been particularly keen to take advantage of the “open skies” agreement with the European Union which comes into force next month. With Northwest's strength on the Pacific, a merged airline would be able to offer a more comprehensive set of destinations.

That both airlines regard securing a single agreement covering all their pilots as a pre-condition for a merger is an indication that they plan to go further than Air France-KLM and Lufthansa-Swiss have in integrating operations. Success would mean a much bigger pay-off. The prize for passengers, investors and regulators would be a globally competitive American airline industry that no longer needed to shelter behind bankruptcy laws and outdated bilateral agreements that keep foreign investment and ownership at bay.

“All of us in the airline business need a strong American industry, because it would be less protectionist,” says Willie Walsh, the chief executive of British Airways. Giovanni Bisignani, the chief executive of IATA, also sees strong American airlines as one of the keys to unlocking change in the industry and opening the way to further international consolidation, of the kind that happens in other, “normal” businesses. “If we cannot change the rules of the game,” he says, “we will never be a normal business.”

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Mobile telecoms

Small, but disruptive

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Might femtocells be the personal computers of the wireless industry?

TECHNOLOGY conferences often resemble massive religious services, worshipping yet another digital calf. The Mobile World Congress, the wireless industry's largest gathering, which took place this week in Barcelona, is notorious for its tendency to bless a new technology as the “next big thing” each year. Its choice this year? Femtocells, or tiny wireless base-stations, which prompted a flurry of announcements and chatter about their prospects. Some even likened them to personal computers, saying that they will be to the wireless industry what PCs were to the computer industry. Might femtocells really be that disruptive?

“Femto” is the metric prefix denoting one quadrillionth (million billionth) of a unit. Femtocells are not that tiny, but they are very small, low-power versions of the radio towers and their wardrobe-sized base-stations used in mobile-phone networks. Hooked up to a home's broadband-internet connection, femtocells provide solid indoor coverage and allow residents to make cheap calls using their existing handsets. Leave the house while chatting, and your call is automatically handed over to the wider mobile-phone network.

Network operators will also benefit. Femtocells could reduce the load on their infrastructure, saving them from building more radio towers as they add more subscribers and introduce high-speed multimedia services. The technology also gives them a foothold in the home, where most telecoms services are consumed, and could even make subscribers more loyal.

Given these advantages, analysts expect femtocells to spread quickly. ABI Research, for instance, reckons there could be 70m in use by 2012. But the industry has a few problems to solve first. One is their ease of use: subscribers will be expected to set femtocells up themselves. Another is interference: too many femtocells in close proximity could interfere with each other, or with existing mobile networks.

Yet the biggest hurdle is the economics. Today the femtocell hardware costs around $200—twice what operators deem acceptable. Operators will also need to devise attractive pricing and service bundles. Though many have announced trials, only one operator—Sprint, in America—is actually selling femtocells. Sprint charges $50 for the device, and unlimited calls from the home cell then cost $15 per user per month, on top of the existing calling plan. (Users must provide a broadband connection, to which the femtocell connects.)

Femtocells are not expected to become common until 2009 at the earliest. But if they do become popular, they could make new things possible. Femtocells could serve as “digital filling stations”, for example, allowing people at home to download videos, music and other large files onto their handsets quickly via broadband before heading out of the door.

Femtocells may even change the way networks are designed. At the moment they are seen as add-ons to existing networks. But in new networks femtocells are likely to play a more central role, to the detriment of big, costly radio towers. This would be bad for the big telecoms-equipment firms, such as Ericsson, Nokia-Siemens and Alcatel-Lucent, which sell the gear used in today's networks. It also may explain why femtocells have so far mostly been pushed by start-ups, such as Airvana, ip.access and Ubiquisys.

Femtocells are indeed reminiscent of personal computers, in that they threaten to disrupt the industry. But whether they will dethrone big base-stations, as the PC dethroned minicomputers and mainframes, remains to be seen. After all, the mobile industry's “next big things” often turn out to be smaller than expected.

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Consumer goods

Cleaning up

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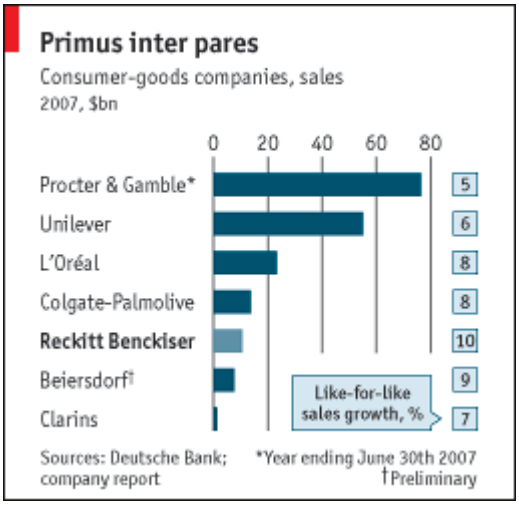
The maker of Harpic and Dettol seems to get dazzling results every time. How?



RECKITT BENCKISER is not a household name, but as one of the world's biggest makers of household cleaning-products it has become the star of a staid industry. Since the merger in December 1999 of Benckiser, a German company incorporated in the Netherlands, and Britain's Reckitt & Colman, the outfit's sales have increased by an average of 7% a year, and its share price has risen by 356% compared with a 13% decline in the FTSE 100 index. Bart Becht, who was at the helm of Benckiser before taking over as chief executive of the merged company, is one of the best-paid bosses in Britain.

As he announced results for 2007 on February 13th, analysts and investors expected impressive growth in sales and profits, and a preview of new products with peculiar names. They were not disappointed. Sales were up 7% to £5.3 billion ($10.4 billion) and profits up 15% to £905m. Mr Becht announced plans for a 20% hike in dividends and a £300m share buyback. And the firm will soon launch Vanish Oxi-Action Magnet, a stain remover in a sachet, and an improved version of Cillit Bang Multi Power Lime & Grime and Degreaser.

Mr Becht attributes his firm's success to its innovative and entrepreneurial culture. Up to 40% of Reckitt's sales come from products that are less than three years old. Innovation is not driven by high expenditure on research and development, but by the company's insights into consumer habits. Controversy is encouraged. The company's multinational staff come from very different backgrounds, which “creates tension in the system”, says Mr Becht. Reckitt has good brands and good market exposure, but other firms do too—so it is set apart by its lack of bureaucracy and ability to reward performance, says Julian Hardwick, a consumer-goods analyst at ABN AMRO, an investment bank.

For 2008 Mr Becht has set a target of 7% sales growth and 10% profit growth, which he hopes to meet by continuing his firm's push into consumer health care. He thinks that consumer-goods firms are far better than drugs companies at retailing, and are therefore well suited to selling over-the-counter (OTC) drugs in supermarkets and chemists. In 2005 Reckitt bought the OTC drugs unit of Boots, a British chemist, and in January it finalised its $2.3 billion takeover of Adams Respiratory Therapeutics, an American maker of OTC drugs.

The Adams takeover was expensive, Mr Becht admits, but he is confident that he will be able to double its sales and profits by 2012. Andrew Wood, a consumer-goods analyst at Sanford Bernstein, an investment-research company in New York, says Reckitt's management team did a good job with the integration of Boots Healthcare in the past couple of years and can do the same with Adams.

Yet in October Mr Wood downgraded his rating on the company because of worries about high commodity prices, a slowdown in European markets and the weak dollar—which helps America's Procter & Gamble, the leading consumer-goods company, as it pushes into foreign markets in search of growth, given a flat market for household-care products at home. Mr Wood also says he is concerned that Reckitt will cut some advertising.

Reckitt's spending on marketing is equivalent to a hefty 12% of sales, but Mr Becht says he does not plan any cuts. He admits that rising commodity prices will result in higher prices for consumers in some cases, though he does not think this will affect sales, since his firm's products are necessities and represent a small fraction of total household spending. But given his ambitious growth targets, will he be able to maintain his spotless record?

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The Hollywood writers' strike

The show goes on—for now

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Reuters

They won't be needing these any more, then

Hollywood's writers are back at their desks. But will the actors walk out next?

A WEEK ago everything was in jeopardy. A three-month strike by Hollywood's writers threatened to ruin the Oscars later this month: actors were unwilling to cross writers' picket lines, so the awards ceremony's organisers planned to show film clips and history instead of the usual procession of glamorous stars. *Vanity Fair*, Hollywood's favourite magazine, cancelled its famous Oscars party. TV audiences were in decline as programmes ran out of plotlines. But on February 12th, after striking a deal with the big media companies, the writers agreed to go back to work.

Was it worth it? Writers lost about $260m in earnings, according to Jack Kyser, chief economist of the Los Angeles County Economic Development Corporation, and other people employed in the TV and film business missed out on $440m. The media firms also needed a deal: had the strike gone on for five months or more, it would have hurt them badly. Their broadcast-television units suffered the most. Nielsen, a ratings firm, found that for the first week of the 2008 TV season, audiences were 21% lower than last year.

The writers' chief victory is in new media. Previously they got nothing for programmes streamed free on the internet, and only 0.3% of distributors' gross receipts for shows sold online. Now they will get 2% of gross receipts for streaming, and the payment for downloads has been doubled. If the internet becomes an important medium for professional video content, as many people expect, the agreement could greatly benefit Hollywood's scribes. “They said they'd never give us new-media rights, and that's a historic gain for us,” says Carlton Cuse, a writer on Disney's hit drama “Lost”.

In the fine print, however, the studios clawed back much of the advantage. The residual payments for streaming start only after a 17-24 day window (by when most people would have already caught up online with shows they had missed on telly). And after that window, for a period of a year, the writers settled for fixed dollar amounts in return for the streaming of their work, which will limit their earnings compared with those of the studios. “All through the agreement the areas with the most promise of future revenue—movie downloads, for instance—are where the writers got the least favourable terms,” says Jonathan Handel, a lawyer at TroyGould in Los Angeles. The writers also dropped their demand for a higher share of money from DVDs.

Broadcast TV bosses now worry about winning back viewers. To save money, broadcast networks are likely to keep lots of cheap reality programming in their schedules, which will mean less work for writers, says Michael Nathanson, an analyst at Sanford Bernstein, a research firm. Irwin Gotlieb, chief executive of GroupM, the media-buying unit of WPP, who oversees over $50 billion of ad-spending a year, says the influx of reality programming has damaged the networks. “Television survived the strike but it needs

more diversity of content," he says.

Normality may not last long in Tinseltown: actors will soon start negotiating to renew their contracts, which expire in June, and they could walk out next. The Screen Actors Guild (SAG) wields far more power than the writers, since it can shut down all production immediately: scripts can be stockpiled, but actors cannot. Hollywood is rushing to finish films by the end of June. SAG says it will take a hard line in negotiations over new media, and will stick to its demand for better terms on DVDs. But after months of disruption, neither the moguls nor the stars can have much appetite for another strike.

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Class-action lawsuits

Lerach and ruin

Feb 14th 2008 | NEW YORK
From The Economist print edition

A lawyer who terrorised America's bosses is jailed

LAWYERS do it until justice prevails, runs the old joke. But Bill Lerach, one of the most influential lawyers in America in the past quarter of a century, is not laughing this week. On February 11th he was sentenced to two years in jail, fined $250,000 (on top of $7.75m he had already agreed to repay), and barred forever from practising law. There will be much chuckling in America's boardrooms, however, at the news that his career of holding errant bosses to account has come to so ignominious an end.

With his former partner, Melvyn Weiss, Mr Lerach pioneered the shareholder class-action lawsuit. He earned a fortune by suing firms, typically after a fall in their share prices, which he would allege was due to wrongful behaviour by managers. Whether shareholders benefited from this was unclear, as it was their own money that was paid out to them—minus the legal fees, of course. Only in recent years did Mr Lerach start to demand corporate-governance improvements as well as money from firms—most of which settled out of court rather than risk public humiliation.

Mr Lerach is being jailed for his role in a kickback scheme that paid people for agreeing to act as plaintiffs in class-action lawsuits. Despite pleading guilty to one charge of conspiracy to obstruct justice and make false statements, he protested that “nobody was ever prosecuted for this in the history of the world.” Ralph Nader, a consumer activist and sometime politician, is among many who think that Mr Lerach's crimes “pale by comparison” to the “corporate crimes that [he] has brought to justice during his long career”.

Mr Lerach's imprisonment comes at a difficult time for trial lawyers. Recent actions in Congress and by the Supreme Court have reduced the scope for bringing shareholder class-action lawsuits, so that even the subprime meltdown looks less of a sure thing for litigation than it would have a few years ago. Yet for those who believe that excessive risk of being sued is one of the biggest drags on the competitiveness of American business, it is all rather encouraging.

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Takeover battles

Just say no

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From The Economist print edition

When and how, exactly, can a company decline to be bought?

FOR firms with cash to spare, today's market for mergers and acquisitions looks tempting. Share prices are down, making targets look cheap. And the seizure in the corporate-debt market means there is little competition from private-equity outfits in any deal worth over $1 billion. If you are a target, meanwhile, things could scarcely be worse. No doubt your low share-price is the result of irrational, non-exuberant investors lumping you in with the rest—wrongly of course. But what can be done to fight off a hostile bidder?

On either side of the Atlantic, big companies are discovering to what extent they can say no. On February 11th Yahoo!, a pioneering internet company, turned down a takeover offer worth $44.6 billion from Microsoft. The software giant had made the bid public a week earlier in a “bear hug” letter designed to press Yahoo! into accepting. But Microsoft's bid, even at a 62% premium to the market price of Yahoo! shares at the time, “substantially undervalues” the company, Yahoo!'s board contended. In London Rio Tinto said much the same thing on February 6th when it rebuffed the latest offer, worth $147.5 billion, from BHP Billiton, a fellow mining giant.

Despite the similar reactions of the target boards, the two deals highlight big differences in takeover law on either side of the Atlantic. In Britain it is relatively straightforward. BHP has made a tender offer for Rio Tinto shares; if enough shareholders accept the offer, BHP will prevail, provided it wins antitrust approval.

Things are more complicated in America. For a start, Microsoft's letter to the board of Yahoo! does not constitute a formal offer, or oblige it to make one. Under British rules, such a letter would require a bidder to make a formal offer by a deadline, as in BHP's case. That said, going public with a letter in the way Microsoft has done is not without risk, as it may alert other potential buyers. But Microsoft appears to have concluded that publicising the premium it is willing to pay for Yahoo! is more likely to scare off other bidders.

Yahoo! has several options, depending on how determined it is to maintain its independence. Two decades ago the courts in Delaware ruled that a board could “just say no” to an offer it did not like, for whatever reason and however much shareholders disagreed, and that would be the end of the matter. But a series of court cases, and the growing power and activism of America's institutional shareholders, have reduced the board's freedom of action since those heady days.

In today's litigious climate, Yahoo! must at least go through the motions of demonstrating that its decision to reject the bid is being done in the best interests of its shareholders, which means plenty of work for its investment bankers as they explain why the firm's low share price is an aberration, and why Microsoft's (non-binding) offer is not as generous as it looks.

Yahoo! has also been considering a defensive tie-up with Google, AOL or News Corp to keep Microsoft at bay. Failing that, it could encourage the antitrust authorities to intervene, as PeopleSoft did in 2003 when a rival software firm, Oracle, launched a hostile bid. Microsoft has been the target of the trustbusters before, after all. But it is a high-risk strategy, for if the buyer then makes a new offer that the board wants to accept, the antitrust authorities may not go away.

Yahoo! might also try another of PeopleSoft's tactics: using a “poison pill” scheme to issue new shares and make a takeover impossibly expensive (which is banned in Britain). The legality of doing this when most shareholders want to accept a bid is not as clear as it was: an attempt to have PeopleSoft's poison pill thrown out might have had a good chance of success, but the case was not decided in court because PeopleSoft bowed to its shareholders and accepted Oracle's bid.

Most lawyers think that, one way or another, Yahoo!'s board will have to accede to the wishes of its shareholders, many of whom seem to be keener on squeezing a slightly higher offer out of Microsoft than scaring it away. In a letter on February 10th Bill Miller of Legg Mason, the second-largest shareholder in Yahoo!, said that his valuation of Yahoo! was in the region of $40 a share (compared with the $31 now on offer) and that he expects Microsoft to “do what it takes”. In short, by saying no, Yahoo!—like Rio Tinto—is probably just playing hard to get.

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Activist investors in Japan

Samurai v shareholders

Feb 14th 2008 | TOKYO
From The Economist print edition

Japan's establishment continues to rebuff foreign activist investors

“TO BE blunt,” explained Takao Kitabata, the vice-minister of Japan's powerful Ministry of Economy, Trade and Industry (METI), “shareholders in general do not have the ability to run a company. They are fickle and irresponsible. They only take on a limited responsibility, but they greedily demand high dividend payments.” Mr Kitabata's remarks at a seminar on January 24th do not represent the official government line, but they encapsulate Japanese attitudes towards activist investors, almost all of whom are foreign. His remarks were aimed at Steel Partners, an American investment fund that dared to question the management of Sapporo, a beermaker in which it holds a 19% stake. On February 13th Steel sent Sapporo yet another letter calling for it to consolidate its beer business and redevelop its real-estate holdings—a plan Sapporo has rejected.

The spat is only one of many rumbling disputes between Japanese companies and foreign activist investors. Steel also demanded that Aderans, a wigmaker in which it owns a 24% stake, should replace its management. Even though Aderans' share price has fallen by some 50% in the past two years, it insists on holding on to lossmaking non-core assets, such as a golf course, and shareholdings in other firms. Steel has also demanded that Noritz, a maker of water-heaters in which it has a 20% stake, should replace its management and buy back shares. The firm had an average return on equity over the past decade of just 2.3% and has missed its revenue targets in six of the past seven years.

Steel and other activist funds may have become more assertive lately because of the sharp fall in the Tokyo stockmarket. They started buying big stakes in Japanese firms in 2004 in response to policy reforms designed to revive the country's businesses. Foreigners now own almost 30% of Japanese shares and account for 60-70% of trading activity. But Japan's Nikkei index has fallen by around 25% since last July, so activists are now holding paper losses in some firms.

There is plenty of scope for Japanese firms to pull their socks up and improve returns, as the activists demand. But Japanese businessmen and politicians fear that the activists are short-term investors keen to strip firms of their cash. The conflict highlights a fundamental divide: companies in Japan are social institutions with a duty to provide stable employment and consider the needs of employees and the community at large, not just shareholders.

As the brashest of the activist funds, Steel has ruffled the most feathers. It became notorious when it tried to take over Bull-Dog Sauce, a condiment-maker, last year but was slapped down by the Supreme Court. Other activists favour more subtle methods. A good example is Perry Capital, another American fund. This month it asked NEC Electronics, a semiconductor firm in which it holds a 6% stake, to disclose the margins on its mobile-phone chip business. Perry suspects that the company is selling chips to its parent at a preferentially low price, to the detriment of minority shareholders.

The biggest showdown between the activists and the establishment is at J-Power, the former state-run energy firm, which was privatised in 2004. The Children's Investment Fund (TCI), a British fund, which owns 9.9% of the firm, has been politely but firmly lobbying J-Power to appoint two TCI representatives to its board, improve margins and unwind cross-shareholdings with other firms. Having been rebuffed, TCI now wants to double its bet. In January it asked for permission to increase its stake to 20% (any holding above 10% requires government approval). John Ho, the head of TCI's Asian operations, says the deal is a test of the integrity of Japan's reform agenda. And it would be, except that Mr Ho has chosen a remarkably hard case. Japan, lacking natural resources, is worried about energy security and is reluctant to hand more control over its power infrastructure to foreign investors.

The activist funds are not expecting their latest moves to produce immediate results: their broader plan is to set out their positions and rally support in advance of the general shareholder meetings that will take place in June. In particular, the activists hope that domestic investors will also start to press for better performance and higher returns. Much as managers may wish otherwise, as they brush aside their

demands, the foreigners show no sign of selling up and going home.

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Face value

Mittalic magic

Feb 14th 2008
From The Economist print edition

Reuters

Lakshmi Mittal built the world's biggest steel firm from scratch—at internet speed

FROM his grand top-floor office in Berkeley Square, Lakshmi Mittal commands a westward view over London's West End to Kensington Gardens, where he lives in one of the city's swankiest houses. The giant swimming pool in its basement is one reason why the leader of the world's steel industry, and Britain's richest man, looks so fit and relaxed. Born in India, Mr Mittal has long made London his home and first came to notice there in 2002 when Tony Blair, the prime minister at the time, controversially put in a good word for him in a Romanian deal. When he made his sudden and spectacular appearance on the European business scene in early 2006, Mr Mittal was still a relative unknown. French government ministers, frightened by his takeover bid for the largely French Arcelor steel firm, did not know whether they were under attack from America or India.

The answer was neither: Mittal Steel was a company from everywhere and nowhere, which helps to explain why its integration with Arcelor to form ArcelorMittal, the world's largest steelmaker, went so surprisingly smoothly. Most mergers fail: from AOL Time Warner to DaimlerChrysler, the corporate landscape of the past decade is littered with wrecks. Just as surprising was the way in which Mr Mittal managed to overcome opposition to the deal from the business establishment and the French government—and has now gone on to increase profits in the new firm's first full year. On February 13th ArcelorMittal announced that it had made $19.4 billion, before tax and interest, on sales of $105 billion in 2007—up 27% on the two firms' aggregated profits in the previous year. Mr Mittal's 43% stake makes him the world's fifth-richest man, with a fortune of some £19 billion.

It helps, of course, that Mittal Steel made its move on Arcelor—a European champion forged in 2001—just as steel prices were heading for record levels, driven by Chinese demand. Mr Mittal was not the only one thinking of global consolidation in late 2005. Arcelor was fighting with ThyssenKrupp of Germany over Canada's Dofasco. Corus, the firm formed by the union of British Steel with a Dutch firm, Hoogovens, was looking for a strategic buyer, and ended up choosing India's Tata over Brazil's CSN. And Mittal Steel itself (then 88% owned by the Mittal family) had just bought International Steel, a collection of bombed-out American mills, overtaking Arcelor in the process to become the industry's number one. So Mr Mittal was already leading the race to consolidate the industry at the time of the Arcelor deal, which confirmed him as the winner with the creation of a new giant that accounts for one-tenth of world steel output.

The ArcelorMittal merger went so smoothly, Mr Mittal explains, because the two companies had been formed as a result of some 50 smaller mergers between them. Having survived all these previous deals, the firms' managers were not afraid of change. Arcelor was the fusion of Arbed in Luxembourg, Usinor in

France and Aceralia in Spain. The origins of the Mittal steel empire were less obvious. The Mittal family had a steel business in their native India, but felt expansion was constricted by regulation and the presence of both a state-owned rival, SAIL, and a private national champion, Tata Steel. So Mr Mittal's father helped him start a steel mill from scratch in Indonesia in 1975. The trick he learned there was to move into steelmaking using imported direct-reduced iron (DRI) pellets instead of more expensive scrap or imported steel billets.

The younger Mittal's emergence onto the world steel scene was not part of some global vision, but was the result of opportunism, a bold eye for a deal and an ability to turn round failing firms. His supplier of DRI was a struggling state-owned steel firm in Trinidad. When the Trinidadians spotted Mr Mittal's success in Indonesia, they invited him to turn their firm around under contract, and he eventually bought it in 1994. At around the same time he acquired another DRI steel plant in Mexico, and two more in Canada and Germany. All of these were distressed assets that governments wanted to offload. By the end of the 1990s the brash newcomer from Kolkata by way of Jakarta was even picking up assets in America, where the rust-belt steel firms were going into decline, and in Eastern Europe, where governments were keen to privatise loss-making state-owned firms. Today Mr Mittal's firm owns one Chinese steel company and holds a stake in another. The steel giant thus straddles the developing world (with opportunities for growth) and the developed world (with scope for consolidation).

Boldness be my friend

Last summer ArcelorMittal launched its new corporate identity with a lavish party at the Musée Rodin in Paris. The company's motto (“Boldness changes everything”) is no empty boast, but a neat reflection of the way Mr Mittal's dealmaking created a world-leading steel giant from virtually nothing in barely a dozen years. People expect that sort of thing in Silicon Valley—but not in mature industries like steel.

Can ArcelorMittal continue to grow and thrive? One potential threat comes from the consolidation of iron-ore suppliers: if BHP Billiton succeeds in its bid for Rio Tinto, the combined firm would have over one-third of the freely traded market. But Mr Mittal already has in-house ore supplies to cover half his needs and expects this to grow to three-quarters in a few years. Another challenge will be to carry out rationalisation in Europe in the face of political opposition. After a summons from President Nicolas Sarkozy, Mr Mittal has agreed to review plans to close a plant in north-east France. But perhaps the biggest test of all will be to cope with the emergence of China as a steel exporter. Its steelmakers may be protected and inefficient now, but sooner or later rationalisation and greater technical skill will produce big firms that can make cheap steel. China's rapid development, hitherto a huge boon for Mr Mittal, may yet turn into a threat.

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Securitisation

Fear and loathing, and a hint of hope

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Not all is lost for the structured-finance business. But it faces further discomfort before it can start to recover some of its past sheen

Otto

AS GAGS go, it was cheap. But irresistible. As a banker from Citigroup placed his chips on the roulette table, a watching wise-guy sniggered: “There goes another $15 billion.”

Even though it was held (as usual) in Las Vegas, this year's conference of the American Securitisation Forum (ASF), between February 3rd and 6th, was a subdued affair. First staged only in 2004, the event has become a mecca for those whose job it is to spin mortgages, credit-card debt and other bread-and-butter financial assets into tradable securities. But this time attendance was down—and tension up, as the neck-masseuses in the exhibit hall could attest. Black humour and self-deprecation replaced the self-congratulation of past years. John Devaney, a hedge-fund manager who had to sell his 142-foot yacht, *Positive Carry*, and his Gulfstream IV after making bad bets on mortgage bonds, told an audience: “I'd like to thank the market for dealing me a direct hit. As a trader if you don't get sucker-punched every once in a while, you don't understand what risk is.”

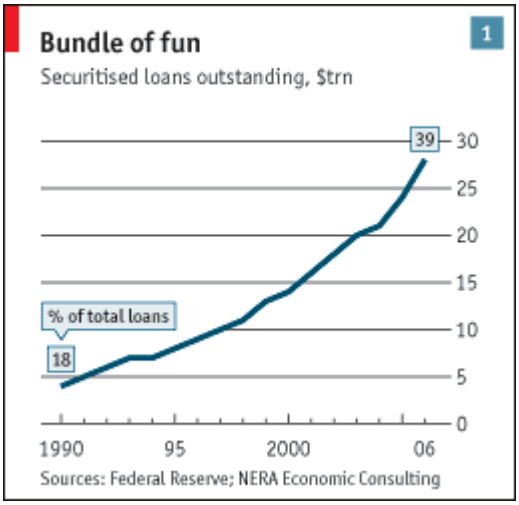
You might suppose that meeting in America's gambling capital would provide symbolism enough. But the conference Super Bowl party had plenty more. It was hosted by Countrywide, a big, troubled mortgage lender that has had to fall on the charity of Bank of America. And, as the guests digested the dramatic ending of the New England Patriots' long winning streak by the New York Giants, they may have sensed an uncomfortable parallel. After a quarter-century of growth that turned structured finance from a capital-market cog into an engine of growth, their business has been buckled by the crash in subprime mortgages and the successive blows throughout credit markets. Worse, some blame securitisation for causing the pile-up in the first place.

The limits of gonzo finance

Securitisation has greatly enhanced the secondary market for loans, giving originators, mainly banks, more balance-sheet flexibility and investors of all sorts greater access to credit risk. Both have embraced it. By 2006 the volume of outstanding securitised loans had reached $28 trillion (see chart 1). Last year three-fifths of America's mortgages and one-quarter of consumer debt were bundled up and sold on.

Along the way, banks cooked up a simmering alphabet soup. The ingredients included collateralised-debt obligations (CDOs), which

repackage asset-backed securities, and collateralised-loan obligations (CLOs), which do the same for corporate loans, as well as structured investment vehicles (SIVs) and conduits, which banks used to keep some of their exposure off their balance sheets.

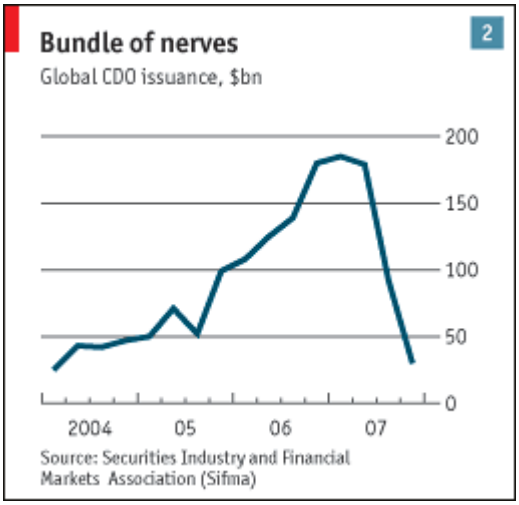


The breakneck growth of this business went into reverse last summer, when it became clear that defaults would undermine the structures built around America's mortgage markets. So tarnished has the subprime-mortgage market become, because of shoddy loan underwriting and fraud, that investors are likely to shun securities linked to it for months if not years. Securitisation of better-quality "jumbo" mortgages—too big to be bought by government agencies—is also at a near-halt. "Mortgages were traditionally seen as very safe assets. Now all but the very best are stamped with a skull and crossbones," says Guy Cecala, of *Inside Mortgage Finance*, a newsletter.

CDOs are unlikely to regain a following in a hurry (see chart 2). Still less popular are CDO-squareds (resliced and repackaged CDOs) and higher powers. CLOs have also been battered as the leveraged loans they are linked to have tumbled in value. However, their collateral is sounder than that backing subprime CDOs, being based on company financials rather than the blandishments of mortgage brokers.

The prospects for SIVs are bleaker still. SIVs borrow short-term to invest in long-dated assets; and investors will no longer tolerate such mismatches in vehicles shielded from standard banking regulation. With the disappearance of the SIVs' funding sources, notably asset-backed commercial paper, banks had to bring over $136 billion-worth onto their books. That comes on top of over $160 billion, so far, of subprime-related write-downs, over a third of which has come at three banks: Citigroup, Merrill Lynch and UBS.

Though few bankers worked in structured finance, it was a huge earner, accounting for 20-30% of big investment banks' profits before the crisis, according to CreditSights, a financial-research firm. Banks such as Bear Stearns, Lehman Brothers and Morgan Stanley, which bought or built mortgage-origination businesses to fuel the securitisation machine, have rushed to close or pare them. Merrill, whose fees from CDOs alone peaked at $700m in 2006, said recently that it would stop packaging mortgages altogether.



Alongside the banks, the "gatekeepers" who were supposed to lend stability and credibility to the new originate-and-distribute model of finance have also been found wanting. Rating agencies' models underplayed the risk that loans from different lenders and regions could turn sour at the same time. Bond insurers, too, misjudged the risks lurking in CDOs. That failing has undermined the worth of their guarantees and strained their own credit ratings—and hence financial markets.

George Miller, the ASF's executive director, accepts that this crisis of confidence will lead to a degree of "re-intermediation" for a time, as some banks go back to balance-sheet lending. But he insists that it highlights the dangers of lax lending standards in a particular market rather than fundamental faults in securitisation itself.

A study by NERA, an economic consultancy, commissioned by the ASF before the crunch, offers some support for this view. Preliminary results, based on data from 1990 to 2006, suggest that increased securitisation leads to lower spreads in consumer credit and softens interest-rate shocks for banks, especially smaller ones. On the other hand, in a recent paper two economists at the University of Chicago's business school conclude that securitisation encouraged mortgage originators to lend to dodgy borrowers.

Stresses and strains

What is not in doubt is that the subprime crisis has exposed four deep flaws in the practice of securitisation. The first is that by severing the link between those who scrutinise borrowers and those who take the hit when they default, securitisation has fostered a lack of accountability.

A debate has been rumbling over how to ensure that lenders have more “skin in the game”. Some think they should set aside a sliver of capital even for loans they sell on. Andrew Davidson, a structured-finance consultant, suggests an “origination certificate”, guaranteeing the quality of the underwriting, issued by the lender and broker, which stays with the loan. Alex Pollock of the American Enterprise Institute thinks that securitisers should be required to guarantee the quality of their loan pools, as are America's government-sponsored mortgage giants, Fannie Mae and Freddie Mac. Others counter that most such exposures can be neutralised these days through derivatives markets.

The second flaw is the sheer lack of understanding of some instruments. Not long ago investors took too much on trust. They are now clamouring for more “transparency”. Some want a central trade-quoting facility for lumpy asset-backed products: regulators have approached the New York Stock Exchange. CME Group, which runs the world's largest futures exchange, is also looking to expand its clearing of over-the-counter securities.

Yet reams of information already accompany mortgage-backed securities sold in public markets. Even SIVs provide a steadier stream of data to investors than most of the banks backing them. So some interpret calls for greater disclosure as whimpering by investors who did not do their homework.

However, more information about the performance of loans after origination would help, particularly those in leveraged structures such as CDOs. This opens up opportunities: fewer banks were at the ASF conference this year, but more data-analytics firms turned up. Clayton, the largest mortgage-surveillance company, unveiled a partnership with Experian, an information-services firm, that will help mortgage-servicers to package subprime loans for modification under a plan backed by the ASF and America's Treasury. Later, it hopes to offer a swathe of data to buyers of structured products.

Understanding the underlying assets is, or should be, at the core of securitisation. Securitisation is really an arbitrage: with surplus collateral, assets can be bundled into an entity with a supercharged credit rating. But if investors fail to spot the jiggery-pokery with credit scores and the outright fraud that permeated the subprime market, that cushion of safety quickly disappears. Witness the speed with which losses have spread into supposedly safe, “super senior” tranches of CDOs.

This points to the third flaw: that some securities were poorly structured, often because their risks were not fully understood. The upper layers of a well-designed securitisation vehicle should be all but impervious to loss. But poorly structured deals, like those stuffed with subprime and marginally less iffy “Alt-A” loans in 2006 and early 2007, have crumbled as the weakness of the collateral becomes clear.

The fourth flaw was the market's over-reliance on ratings as a short cut to assessing risk. In the go-go years, people wrongly assumed that an AAA-rated mortgage bond—even one with a high yield—would never lose value. But the rating agencies, paid for their appraisals by the seller not the buyer, were compromised from the start. Moreover, their quantitative models appear to have ignored “fat-tail” risks—the possibility that large losses are likelier than standard statistical models predict.

Though the agencies do not have to suffer giant write-downs, they have paid a high price. Before the market imploded, almost half the revenue of Moody's, a leading agency, came from structured finance. Now the agencies are revising their rating criteria in a bid to head off tougher regulation. “Either deals get less complex or we have to find a better shorthand for measuring risk,” says Ron Borod of Brown Rudnick, a law firm. The rating agencies say they were never supposed to substitute for investors' own due diligence. That is disingenuous, given their past self-assuredness. Still, wise investors will take future ratings with a pinch of salt, as most hedge funds have long done.

As the market grapples with change, some is likely to be imposed from above. Separately, international regulators and the President's Working Group (comprising America's Treasury, the Federal Reserve and others) are looking into securitisation's part in the crisis. By co-operating over loan modifications, the ASF may have gained favour with the working group.

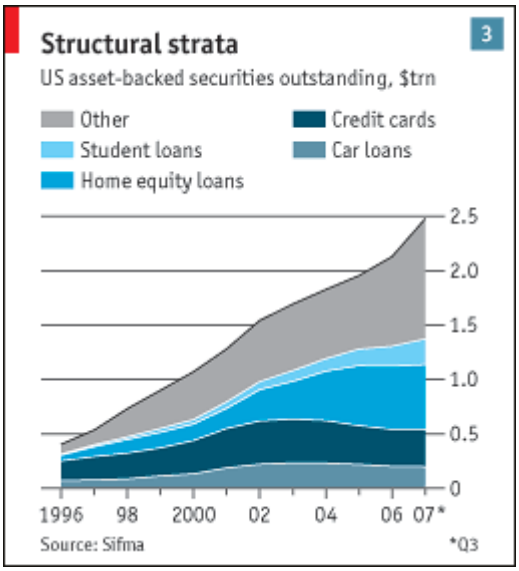
The industry is more worried about two bills in America's Congress. Securitisers can live with much of the one that has been passed by the House of Representatives. What alarms them is an “assignee liability” provision that would hold them partly responsible for lax lending by originators. This, they say, would send a chill through secondary markets, cutting credit to thousands of worthy borrowers. Precedent is on

their side. Georgia introduced assignee liability, only to back-pedal after the state's subprime market started to seize up. Not all bankers are against it: in Las Vegas, Bianca Russo of JPMorgan Chase argued that some form of it was needed to counter the perception, if not the reality, that securitisation was harmful.

The other bill would allow bankruptcy judges to alter the terms of struggling borrowers' mortgages. The industry argues that this would be an intolerable violation of the sanctity of loan-pooling contracts. In addition, securitisers face probes by several state attorneys-general, the Internal Revenue Service, the Federal Bureau of Investigation, the Securities and Exchange Commission and the Justice Department, as well as lawsuits from investors and a rising number of stricken municipalities.

Bankers will tell you that the subprime meltdown was just that: the product of irresponsible lending to, and borrowing by, flaky consumers, not a broader crisis of securitisation. Maybe, but the severity of the credit crunch points to broader pain ahead. More will come from housing: much of the 30-40% of American home-equity loans that have been securitised looks wobbly, as does a growing chunk of the $800 billion of Alt-A paper outstanding. Loans for offices are an even bigger worry. The spread on the AAA tranche of an index tracking bonds backed by commercial mortgages has tripled since the turn of the year. New issuance is frozen.

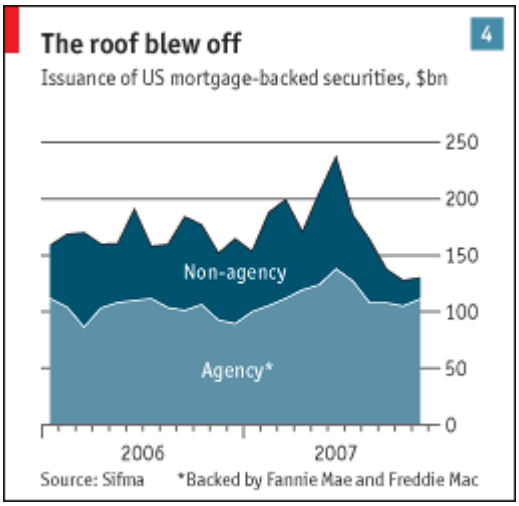
Trouble is also brewing for securities tied to non-mortgage consumer assets, such as credit-card debt, car loans and student loans, which make up a good slice of the asset-backed market (see chart 3). Credit-card delinquencies are creeping up as the economy turns down. The sharp slowdown in card borrowing, reported recently by the Fed, will mean less raw material for securitisation. Standards for car loans dropped in 2006-07, though not as dramatically as they did for mortgages.



One ominous sign is that structured instruments tied to student loans are coming unstuck, although the loans typically carry a federal guarantee. Recent auctions of such securities by Citigroup, Goldman Sachs and others have failed. Normally the banks would have bought in whatever did not sell. But they have declined, because they dare not cram even more assets onto their already strained balance sheets.

Yet securities of these types should be more resilient than those tied to subprime loans. Their structures are tried and tested, having evolved, along with performance data in their markets, over many years. In contrast, subprime mortgages with only a short record were shoved into many-layered structures that depended on house prices holding up. “They started from the other end entirely, asking how can we create CDOs, backed by mortgage-backed securities, themselves backed by collateral with barely any history, and their stress tests assumed house prices would be stable and the loans in the pools uncorrelated,” says Mr Borod.

Encouragingly, credit-card receivables are still being bundled and sold. There are even shoots of hope in the mortgage market, thanks to a refinancing mini-boom in the wake of interest-rate cuts—though most new deals are backed by the giant agencies, Fannie Mae and Freddie Mac, not Wall Street (see chart 4).



Saunter down the strip

It is also worth remembering that securitisation has not been confined to consumer and corporate loans. In the past decade financial engineers have found ways to package and sell tobacco-settlement and mutual-fund fees, sports and fast-food franchise rights, life-insurance premiums, intellectual property, music royalties and much more. Hollywood studios use securitisation to help finance film-making. With intangible assets accounting for an ever-growing share of corporate value, this trend looks likely to continue.

That may be scant consolation to the banks whose bets have gone so spectacularly wrong. Their fingers are still being singed by mortgage-backed securities and CDOs that continue to burn. Those hoping for a recovery face a long wait, maybe 18 months or more for out-of-favour collateral such as non-agency mortgages. Some once-enthusiastic cheerleaders are turning gloomy: Bear Stearns said recently that its net short position on subprime loans and bonds had risen to $1 billion. Others are redeploying staff and capital to fee businesses that don't put a strain on the balance sheet, such as merger advice.

But it would be a mistake to write the obituary of structured finance. Even its sternest critics accept that securitisation has brought real economic benefits, and that it would be wrong to throw away the whole barrel because of a few subprime apples. Some students of financial innovation think the market will come back even more inventive after scorching its less attractive pastures. “As with past forest fires in the markets, we're likely to see incredible flora and fauna springing up in its wake,” says Andrew Lo, director of the Massachusetts Institute of Technology's Laboratory for Financial Engineering.

So it may just be a matter of hanging on. As any punter in Las Vegas will tell you, every losing streak ends eventually, if you can only stay solvent for long enough.

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The world economy

A stimulating notion

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From The Economist print edition

The idea of giving flagging economies a fiscal boost is back in fashion

Illustration by Satoshi Kambayashi

“I AM a Keynesian now,” Richard Nixon declared in 1971. With the benefit of hindsight, his quip marked the high point of fiscal fine-tuning. Inspired by John Maynard Keynes's “General Theory”, many economists in the 1960s and early 1970s viewed government tax and spending decisions as the prime tool for smoothing the economic cycle. That confidence was later shattered by stagflation and rising budget deficits. The modern consensus has been that monetary policy, administered by an independent central bank, makes a better first weapon against recession than the whims of politicians.

But now, after more than three decades in the wilderness, Keynesian-style fiscal policy seems to be staging a comeback. On February 13th George Bush signed into law individual tax rebates and temporary investment incentives worth $152 billion (just over 1% of GDP) this year, and $168 billion in total. Passed in record time by the normally sluggish Congress—and before recession is even a certainty—the stimulus is aimed at cushioning America's downturn by getting cash into consumers' pockets and encouraging firms to invest.

Meanwhile debate has begun on the merits of a fiscal boost well beyond America. The IMF, traditionally a fierce guardian of budget probity, is pushing for broad fiscal loosening if the global economic outlook darkens. Monetary policy may be less effective in this downturn, argues the fund's managing director, Dominique Strauss-Kahn, and many countries are in unusually strong fiscal positions. At the G7 finance ministers' gathering in Tokyo on February 9th, he said that, in addition to America, countries making up a quarter of global GDP had the potential to cut taxes or increase spending—and urged them to begin contingency planning now.

A few non-American politicians are already thinking along those lines. Spain's government is putting together a fiscal-stimulus package as its economy slows in the wake of a construction bust. Alistair Darling, Britain's chancellor, has said his budget will be aimed at raising growth.

But many others are sceptical. Jean-Claude Trichet, president of the European Central Bank, has said bluntly that discretionary fiscal policy should be “avoided”. Joaquín Almunia, the European Commission's top man on economic matters, has given warning against “succumbing to the Sirens' songs”. Ken Rogoff, the IMF's former chief economist, says Mr Strauss-Kahn's plan seems “dubious”. A fair few economists within the fund agree.

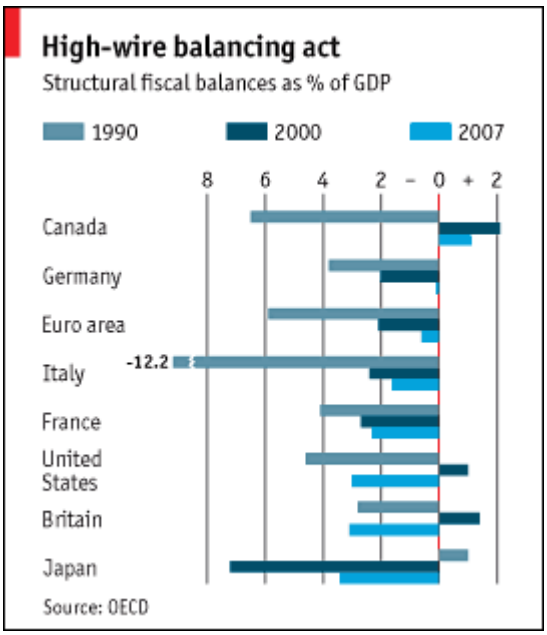
Who is right depends on the answer to two questions. Do countries have more room to use counter-

cyclical fiscal policy than they used to? And what is the evidence that it works?

Bold or barmy?

Many of the world's rich economies have healthier budgets than before other recent downturns. In 2007 almost half of the countries within the OECD ran structural fiscal surpluses (that is, adjusted for the state of the business cycle). The euro zone's public finances have improved dramatically, from a combined structural deficit of 2.1% of GDP before the 2001 recession to a deficit of only 0.7% of GDP in 2007. Germany's budget is now virtually in balance. Spain, Ireland and Finland are all running surpluses.

Judging by fiscal deficits alone, it is America and Britain that should fret. In 2000 America ran a structural surplus; in 2007 it had an underlying deficit of 3% of GDP. At 3.1% of GDP, Britain's was slightly bigger (see chart).



Although cyclically adjusted budget positions give a better picture of a country's fiscal health than headline surpluses or deficits, they tell only a partial story. Countries have varying underlying debt burdens and face differing pressures from ageing populations. Japan has a big deficit, a large debt and the oldest population in the OECD. Britain has a bigger structural budget deficit than Italy, but much less debt (43% of GDP versus 105%).

Outside the OECD the fiscal situation has vastly improved. Thanks to better economic management and the boom in commodity prices, several emerging economies have enviably strong public finances. Measured properly, China's budget is in surplus (see article). High oil revenues have brought double-digit budget surpluses to the Gulf oil producers and pushed Russia's surplus over 6% of GDP. Brazil and Mexico both have deficits of less than 2% of GDP, a far cry from the fiscal laxness of a few years ago.

The news is not all good: India's budget deficit is still large. Countries such as Turkey and Hungary have large current-account deficits that would make fiscal expansions risky. But no longer is the option of countering a downturn with fiscal tools confined to rich countries.

But should that option be exercised? Sceptical economists argue that counter-cyclical stimulus often does more harm than good. Politicians traditionally fail to recognise recessions in time, and then take too long to enact stimulus. By the time tax cuts and spending increases arrive, the downturn is often over, and the extra stimulus simply adds inflationary pressure. Moreover, since politicians are usually unwilling to tighten fiscal policy enough in a boom, any loosening of the budget reins tends to result in permanently higher debt. Others argue that temporary stimulus, even if well timed, will not work because people will hardly adjust their spending in response to a one-off tax cut.

There is evidence to support all these worries. Most analyses of America's stimulus efforts in the 1970s conclude that they were badly timed. In continental Europe, the record suggests that activist fiscal policy brought permanently higher public spending and debt—a point Mr Trichet has been quick to note. Japan's experience is salutary. It tried to break deflationary stagnation in the 1990s with several fiscal packages. Debt soared but the country did not recover for a decade. Milton Friedman famously used Japan to argue that fiscal pump-priming didn't work.

But not all the evidence is negative. An influential study in 2001 by Adam Posen of the Peterson Institute and Ken Kuttner, now at Oberlin College, argued that Japan's debt burden stemmed from its stagnant economy not the stimulus packages. Stimulus appeared to fail because it was fitfully implemented. When tax cuts and spending boosts were enacted properly, their analysis suggests, they worked.

More recently, the post-mortems on America's 2001 fiscal boost have been positive. By luck more than design, the income-tax rebate was well timed (Mr Bush had promised to cut taxes long before the recession hit). It also seemed to work. One study suggested that people spent between 20-40% of their rebate in the quarter in which it was received, and over 60% of it within six months. Poorer, more credit-constrained people spent a higher share of their rebates.

Such studies have informed America's recent debate. Politicians have been urged to act quickly and keep the stimulus “targeted and temporary”. Two-thirds of the boost will come from tax rebates, which 130m American families are due to receive starting in May. If people spend roughly the same share of their rebate as they did in 2001, Morgan Stanley reckons output could grow at an annual rate of more than 4% in the third quarter of 2008.

That is a big boost but it will not last long. By the beginning of 2009, Morgan Stanley's economists expect GDP growth to slip back to 1.3%. A growing group of forecasters is now fretting about a “W” shaped, or double-dip, recession.

To Keynesian converts that outcome would simply call for more stimulus. Even before Mr Bush had signed this week's package, some Congressmen were talking about a second round, focused on extending unemployment insurance. Laurence Seidman of the University of Delaware says America has had “an excellent first dose” of stimulus and should be planning for a second if necessary. Traditionally, such talk would have sent shudders though the IMF. Now at least some within the fund's upper ranks seem to agree.

Less clear, however, is how far America's experience is applicable elsewhere. With stingier unemployment benefits and a lower federal tax take, America has fewer “automatic stabilisers” than other rich countries do. Since many American states are forced, by law, to run balanced budgets they cut spending or raise taxes in a downturn—the opposite of Keynesian pump-priming. Federal-stimulus packages, in part, counter those trends. With higher tax burdens and more generous jobless benefits, European countries get a bigger fiscal boost without any change in policy.

A few euro-zone economies, notably Spain and Ireland, may use the fiscal lever. But others seem content to rely on automatic stabilisers. Germany's finance minister has ruled out new counter-cyclical measures. France and Italy have headline deficits that could soon nudge against the 3% of GDP limit prescribed by the European Union's stability and growth pact.

Nor, for now, is there much enthusiasm for action in emerging markets. The economies with the strongest fiscal positions, such as China, need to worry about overheating more than slumping. But what if the outlook darkens? Many emerging economies, often at the IMF's behest, have limited their fiscal flexibility by introducing clear budget rules.

Nor are the mechanisms for swift stimulus obvious. Emerging economies, in general, have fewer automatic stabilisers than rich ones do. In China, for instance, personal income tax will be paid by only 30% of workers this year and accounts for just 7% of government revenue. Some poor countries, particularly those with excess household saving, could do with a better social safety net. But revamping health, education and pension systems takes time.

In many developing countries, infrastructure spending may be the most promising way for governments to support output—and boost the economy's long-term potential. Keynes argued that governments, *in extremis*, could boost demand by digging holes. Until now, few emerging economies had the luxury to contemplate his advice. Now that they do, roads, bridges and electricity grids would be a better bet.

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Asian budget finances

Poles apart

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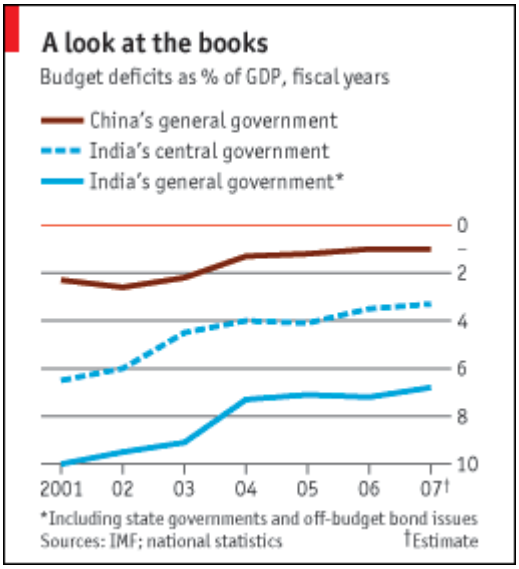
China has plenty more room than India to stimulate growth



THE Chinese invented the abacus; India invented the binary and the decimal systems. So both nations are deft at playing with numbers. All the more reason to look carefully at their governments' finances (see chart).

According to official estimates, China's government ran a budget deficit of around 1% last year. But some economists reckon that the cautious government is understating its true fiscal health: it probably had a small surplus. Indeed, Jiming Ha, chief economist at China International Capital Corporation, an investment bank, reckons that if the profits of state-owned firms were also added in, the government could have a surplus of around 3% of GDP. China's public debt has also fallen to only 17% of GDP, well below the average ratio of 77% in OECD economies. Indeed, China has the best fiscal position of any big country, giving the government plenty of room to cushion the economy if demand suddenly falls.

By contrast, India, though improving, has one of the worst fiscal positions in the world. The government tries hard to conceal this fact, boasting that it has reduced its deficit to an estimated 3.3% of GDP in the year ending March, from 6.5% in 2001-02. However, in a recent report the IMF argued that the true total deficit is closer to 7% of GDP once you add in the state governments' deficits and various off-budget items (such as bonds that the government issues to oil companies to compensate them for holding down prices). If the losses of state electricity companies are also added in, the total deficit could top an alarming 8% of GDP. India's public debt is also uncomfortably high at about 75% of GDP.

The IMF has urged the government to tighten fiscal policy. But since India's budget, due to be presented on February 29th, is the last opportunity to boost spending before a general election next year, the government is likely to turn a deaf ear and instead present its more rosy, more misleading numbers.

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Buttonwood

Hedge podge

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Despite mixed results, hedge funds earn a little respect

Get article background

TRYING to assess the behaviour of hedge funds is a bit like attempting to nail a blancmange to the wall. It is all too easy for the truth to slip away.

Take hedge-fund “failures”. Most funds close down because it does not pay their managers to continue, not because their performance has been disastrous. For every Bear Stearns “enhanced-leverage” fund that loses all of its value, there are five or six funds that shut after a fall of a few percentage points.

It is a Darwinian world. In 2006, says Hedge Fund Research (HFR), a consultancy, 717 funds ceased to trade—around two every day. Although 2007 was a far more difficult year, the pace of extinction slowed; in the first nine months just 409 funds gave up the ghost. Doubtless more hedge funds will fail this year, but that will not necessarily be a sign of the industry's demise.

Inflows did slow to $30 billion in the fourth quarter, which may be a sign that investors are getting more wary about the managers' big claims and high fees. But that still allowed the industry to pick up $195 billion over the course of the year, more than its entire assets back in 1995.

When it comes to performance, the waters get even murkier. According to HFR, the average hedge fund lost 1.8% in January, not long after another bad month, November, when the loss was 2.1%. A critic of the industry would take issue with such a record from an industry that claims to offer absolute (in other words, positive) returns. A true believer would retort that the S&P 500 index fell by 6% in January and that hedge funds did indeed act as a hedge.

But hedge-fund indices are not like the S&P 500; they are far less comprehensive. A survey by William Fung and Narayan Naik of the London Business School examined five different benchmarks and found that only 3% of constituents were common to all of them. Returns are likely to be overstated given that poor performers will drop out of the index (so-called survivorship bias) and that only funds that are initially successful will agree to report their numbers.

Furthermore the HFR index is an unweighted composite of all hedge-fund returns, some of which are closed to new investors. Arguably you should count only funds that are open to new money. Such “investable” indices tend not to perform so well; HFR estimates that in 2007 its investable index returned just 4.5%, compared with 10% for the industry as a whole.

In the view of some commentators, these biases are so great that hedge-fund statistics should be dismissed altogether. In his book “The Big Investment Lie”, Michael Edesess argues that “the implication often made from hedge-fund statistics—that hedge funds perform better than other funds or than the market as a whole, with less risk—is completely wrong.”

But even if Mr Edesess is right, the opposite impression—that hedge funds generally behave in a highly risky fashion—also seems to be wrong. The industry may be secretive but it cannot generally hide high-profile disasters. And the credit crunch seems to have resulted in fewer disasters in the industry than it has in the investment-banking world.

Why is this? One answer could be that banks have simply been forced to be more transparent about their losses than hedge funds have been. Hedge funds may not be valuing their portfolios correctly and the truth will only emerge when they are forced to sell assets to meet the redemptions of clients' holdings. But given that the credit crunch started to bite last July, one would have expected a few more calamities to emerge by now.

An alternative explanation draws on the old “ham and egg” joke used to explain the difference between involvement and commitment—a chicken is involved in producing your breakfast, but a pig is committed. Hedge-fund managers usually have a large amount of their capital invested in their funds—reason, indeed, why some of them have become billionaires. This commitment gives them every incentive to control risk. Bank traders, in contrast, are playing entirely with other people's money; they get no credit for not losing money in a given year and are only likely to get a big bonus if they take risks.

Indeed, some hedge fund old-timers like Michael Steinhardt think that their modern-day counterparts are far too namby-pamby and are too ready to be content with single-digit annual performance. In short, they charge too much for the returns that they realise. That seems like a perfectly valid criticism. But in the past six months or so, caution may have served investors well.

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UBS and Credit Suisse

For richer, for even richer

Feb 14th 2008
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Does it make sense to marry private banks and investment banks?

THE dress code at UBS may soon need to change to sackcloth and ashes. On February 14th the Swiss bank's top brass unveiled a grim set of results, headlined by a fourth-quarter loss of SFr12.5 billion ($11.3 billion) due mainly to the misadventures of its investment bank in America's subprime market. More contrition will be needed later this month when disenchanted UBS shareholders vote on plans to raise SFr19.4 billion of new capital, much of it from sovereign-wealth funds.

To make matters worse, the picture at Credit Suisse, a smaller rival, looks much healthier. Despite announcing another SFr1.3 billion of write-downs on February 12th, Credit Suisse stayed comfortably in profit during the fourth quarter and posted full-year net profits of SFr8.5 billion. It was the first time in many years that it has performed better than UBS. It even had the cheek to propose increasing its dividend.

UBS will be smarting. Of the two, Credit Suisse is the bank that has a habit of slipping up more spectacularly (indeed, painful memories of past mishaps seem to have helped it avoid the worst of this mess). More galling still, it is doing well with a strategy copied straight from UBS: the integration of private banking, investment banking and asset management. Helped by the surefootedness of its investment bank, net new inflows into Credit Suisse's wealth-management arm rose during the fourth quarter. At UBS, by contrast, they fell.

Even so, many wonder whether such different businesses belong together at all. Credit Suisse may have avoided the worst of the subprime crisis but its share price has still been dragged down by worries over its exposure to logjammed leveraged loans and souring commercial-property assets. The volatile investment-banking bits of UBS and Credit Suisse command much lower valuations than the steadier private-banking businesses.

They certainly conjure up separate worlds, one of wood-panelled discretion and the other testosterone-rich aggression. “Investors expect their private bank to be financially stable,” says Alan Gemes of Booz Allen Hamilton, a consultancy. For less wealthy clients in particular, exposure to investment banking may seem unduly risky. “Pure-play” wealth managers appear to be doing well out of recent market turmoil as a result: new money flowed into Julius Baer, a Swiss private bank which has steered clear of investment banking, at its fastest rate since 1999 during the second half of last year. UBS's hunt for new capital is more about reassuring its wealth-management clients that its finances are solid than placating its nervous regulators.

Neither UBS nor Credit Suisse give any hint that they are about to change strategy, however. A break-up would be fraught with difficulty and there are some sound reasons for combining the businesses. Investment banks provide a pipeline of well-heeled clients for private banks, from entrepreneurs fresh from an initial public offering to senior businessmen blessed with massive bonuses. An integrated model means that private banks can serve their clients, particularly the really wealthy ones, without advising them to go to rivals for other banking transactions. Credit Suisse says that for every $100 of revenue that came into the private bank from its richest clients in 2007, an additional $37 was generated for its other businesses.

That is partly because the filthy rich are increasingly demanding. UBS helped Manuel Jove, a Spanish property tycoon and one of its private clients, to purchase a $4.4 billion stake in BBVA, a Spanish bank, in July. Credit Suisse has a cohort of 75 investment bankers within its private bank who help clients to think through complex transactions—monetising stakes in companies, say. “Traditional private banking is all about investing liquid assets,” says John Zafiriou, who heads the group. “We are helping our clients manage their total assets, 90% of which could be illiquid.”

Indeed the real threat to the integrated model may not come from skittish clients but from risk-hungry ones looking for the best investment-banking expertise. The Swiss banks are not the only game in town, after all. Big investment banks have the same incentives to get into private banking as wealth managers do to make the return journey; all those sticky private deposits are appealing too, given the dangers of relying on wholesale markets. Rumours swirl that Goldman Sachs, which has said it wants to beef up its wealth-management business, is eyeing up Julius Baer.

These questions will worry Credit Suisse far less than UBS, of course. Its investment bank has been more adept at managing risk, perhaps because Brady Dougan, the boss of Credit Suisse, came from that side of the business. It is ramping up the private bank, with ambitious plans to hire 1,000 more relationship managers by 2010. UBS will need more than a show of penitence to regain the initiative.

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New blood at UBS

The outsiders

Feb 14th 2008 | LONDON AND SÃO PAOLO
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The troubled Swiss bank seeks to import its saviours

IN DISCREET offices above Zurich's elegant shop-lined streets, UBS's clannish executives have sometimes managed to give the impression they are running a genteel parochial bank rather than a money-grubbing global one.

Increasingly, however, they are turning to outsiders for help. On February 13th the bank named Jerker Johansson of Morgan Stanley to head its investment bank. Mr Johansson, a Swedish citizen, had been at the American investment bank for 22 years, rising to head its global institutional-equities business before a reshuffle in December.

Under him at UBS will be an even more unorthodox hire in charge of fixed income, the part of the firm that got it into such a mess. In August, as the crisis broke, UBS (with $2 trillion in assets) handed the job to Andre Esteves, former head of Banco Pactual (with a somewhat smaller $8 billion in assets). It had bought Mr Esteves's Brazilian bank less than a year before.

If Mr Esteves's appointment suggested to some that UBS was grasping at straws, within the bank the feeling was rather different. He consistently made money for Banco Pactual through Brazil's seesawing currency crises: who better to make cool bets during America's subprime meltdown?

Mr Esteves has an unusual CV. He joined Pactual in 1989, starting work in the IT department. After a year spent hoovering up information from traders and making some suggestions of his own, Mr Esteves was given his own berth on the trading floor. Just over ten years later he was running the bank.

All of which sounds like typical master-of-the-universe behaviour, but Mr Esteves does not fit that mould precisely. He is unflashy, avoids publicity and admits to reading books about finance to relax. “I was born to make money, not to spend it,” he told one interviewer.

Mr Johansson, too, appears to be more of a thoughtful investment banker than the brash type. In that respect, he resembles Brady Dougan, the American head of Credit Suisse, UBS's archrival. Mr Dougan, however, was a Credit Suisse veteran who knew all about the peculiar Swiss culture before he took over. He can also be a lot more confident about the future of his investment bank than the new bloods at UBS can of theirs.

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Insurers

Unsurance

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Sitting uncomfortably in the spotlight

INSURERS are used to losing sleep over hurricanes, floods and fires. These days the catastrophes are of the credit rather than the climatic kind. Unexpected losses at the world's largest insurer, American International Group (AIG), are fuelling speculation that the industry is set for more write-downs. Meanwhile, the fate of bond insurers continues to move markets as they wrestle to prevent their debt from being downgraded. The latest twist is a “rescue” offer from a bond-insurance whippersnapper called Warren Buffett.

Characteristically, the deal being offered by Mr Buffett is more cheeky than charitable. His recently formed bond insurer, with its AAA rating, would assume the risk in the $800 billion of municipal bonds guaranteed by three troubled “monoline” rivals, MBIA, Ambac and FGIC. In return, it would receive several billion dollars of up-front fees, calculated as a percentage of their future premiums. For $5 billion in capital, at a stroke, Mr Buffett would capture a third of the municipal-insurance market. “I did not dream this up in one of my pro-bono moments,” he told CNBC.

The market would benefit, too. The monolines have acted as a transmission mechanism, infecting America's $2.6 trillion municipal-bond market with the disease they caught handling collateralised-debt obligations (CDOs). If the insurers lose their top-notch ratings, so would the municipal paper they guarantee. This prospect has caused several muni-bond auctions to fail this month. It also led to surging costs for borrowers such as New York's Port Authority, which saw the interest rate on some “auction-rate” securities jump from 4.2% to 20%.

Being more isolation than cure, the plan does little for the monolines themselves. They would still be heavily exposed to subprime assets. They would still face downgrades, barring further capital injections. Banks exposed to them through credit derivatives would still face the “counterparty” risk that contracts are not honoured. That could end up costing them anywhere up to $70 billion.

Mr Buffett makes no apology for his selectivity: the monolines' structured-finance business is almost certainly beyond saving, he thinks. Others are not yet convinced. New York's insurance commissioner continues to urge banks to explore bail-outs, so far to little avail.

For all their woes, the monolines remain reluctant to cede the best bit of their business. Ambac has already rejected the Buffett plan. He has given FGIC and MBIA (whose corporate motto, Wisdom in Action, seems better suited to the Sage of Omaha) 30 days to sign up or find a better solution.

Meanwhile, AIG's task is to explain a discrepancy that has forced it to write down CDO-related swaps by $4.9 billion. This is embarrassing. The figure is five times higher than the number AIG confidently offered in December. Its auditors have since identified a “material weakness” in how it values securities.

It is even more worrying given AIG's size: it is thought to be the world's biggest seller of credit protection, and has $62 billion of exposure to CDOs with some subprime content. This wasn't supposed to happen under AIG's boss, Martin Sullivan, who was brought in to tidy up after an accounting scandal in 2005. His ousted predecessor, Hank Greenberg, who controls 13.6% of AIG, has complained that the firm is now run by “lawyers who don't know anything about business”.

AIG insists its eventual losses, unlike its current mark-to-market hit, will not be “material”. But it has lost a lot of trust. Combine this with the monolines' grim prognosis, and it is easy to see why fear is growing that insurers could fall victim to further unnatural disasters.

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Stockmarkets

Dow wager

Feb 14th 2008
From The Economist print edition

A flawed market signal

LIKE the search for the Holy Grail, investors seek perfect ways of timing the peaks and troughs of the stockmarket, especially at frightening times like the present. One widely followed signal is Dow theory, which was developed from the writings of Charles Dow, the founder of Dow Jones, the publisher and news agency. Most spectacularly, the theory encouraged investors to sell shares just before the crash of 1929.

Once again, Dow theory is sounding the alarm; it has been since November 7th (since when the Dow Jones Industrial Average has fallen by 7%). Should that persuade investors that American shares are in a bear market? Not necessarily. Harry Colvin and Chris Watling of Longview Economics, a consultancy, find that there have been 43 sell signals since 1920. Of these, 17 resulted in a bear market, as defined by a fall in share prices of more than 20%. That sounds no better than chance.

Supporters of Dow theory might retort that there have been no bear markets that it has *not* presaged. But even this record is not quite as impressive as it seems. For a sell signal to be generated, Dow theory requires there to be big declines in both the Dow Industrials and in the Transportation Average (the idea is that economic weakness should show up in the shares of manufacturers and the companies that ship their goods).

But as Mr Watling points out, this reasoning is circular. The theory states that, if prices have fallen a long way, a bear market is on the way. But the definition of a bear market is a period when prices fall a long way. It is a bit like advising a hiker to watch out for the cliff edge when he has already fallen 15 feet from the top.

The Holy Grail has never been found. Annoyingly, the stockmarket equivalent seems unlikely to be discovered either.

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Economics focus

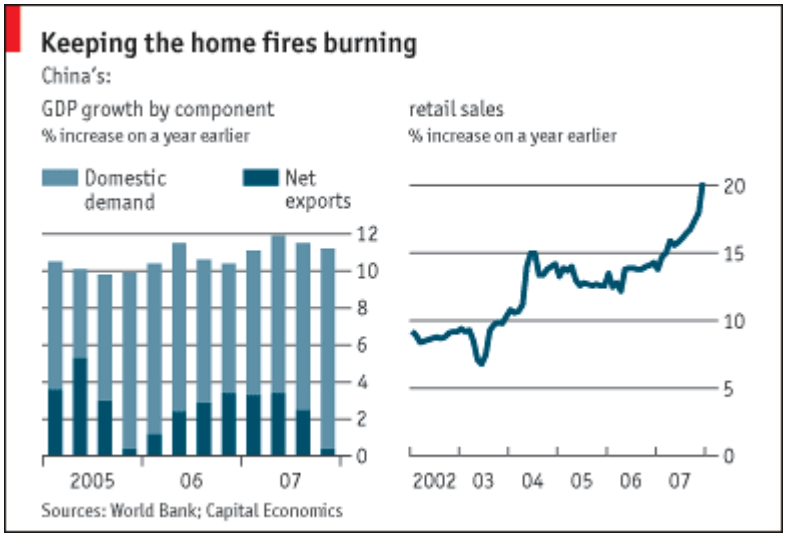
From Mao to the mall

Feb 14th 2008
From The Economist print edition

Amid all the global gloom, the good news is that China is turning into a nation of spenders, as well as sellers

THE past year has seen a lively debate among economists about China's rapid economic growth. Some, such as Brad Setser at Roubini Global Economics, believe that exports have been the main generator; others, like UBS's Jonathan Anderson and *The Economist*, think that domestic demand—spending on roads and railways, cars and clothes, and the like—has been the driving force. Just now, a lot turns on this argument: both how badly China's economy could be hurt by an American recession and also the extent to which Chinese spending could help to prop up the rest of the world economy. Some new figures suggest Chinese demand is rising strongly enough to help offset the increasing weakness in China's export markets. That could be good news for the world at large.

It is certainly true that China's current-account surplus rose to a record 10% of its GDP last year, which means that it produced a lot more than it consumed and so relied on foreigners to buy the excess. But it is the change in a country's trade surplus, not its absolute size, which matters for GDP growth. The increase in net exports (exports minus imports) has never been the main source of China's growth. It contributed two to three percentage points to annual GDP growth between 2005 and 2007, whereas domestic demand (consumption and investment) added eight to nine percentage points. But the latest figures show that exports have become even less important as a driver of growth. The World Bank's latest *China Quarterly Update* suggests that net exports contributed only 0.4 percentage points to GDP growth in the year to the fourth quarter of 2007 (see left-hand chart). Overall GDP growth slowed only modestly (to 11.2%) because of faster growth in domestic demand, which contributed an impressive 10.8 percentage points.



The significance of all this is that although China's headline GDP growth is widely tipped to slow to 9-10% in 2008, if a bigger chunk of this growth comes from domestic consumption and investment, then in absolute dollar terms China could well contribute more to global demand this year than in 2007.

Dragonomics, a Beijing-based economics-research firm, forecasts that the contribution of net exports to GDP growth will actually fall to zero during 2008, but this will be partly offset by strong growth in investment and consumption. After growing by an average of $80 billion during each of the past three years, China's trade surplus is likely to remain more or less flat this year. Export growth fell from 28% in the year to the first quarter of 2007 to 22% by the fourth quarter because of weaker American demand and the impact of a stronger yuan.

Meanwhile import growth surged from 18% to 26% on the back of strong industrial and consumer demand. In other words, Chinese imports are now growing faster than exports. China's trade surplus widened by only 12% (in dollar terms) over the year to the fourth quarter, compared with an increase of almost 90% in the first half of last year. This was partly due to higher oil prices that increased the value of imports, but even in inflation-adjusted volume terms the surplus stopped growing in the latter part of last year.

Time to open their wallets

Not only did more of China's growth come from domestic demand late last year, but there were also signs of a “rebalancing” of the economy from investment towards consumption. Using figures from China's National Bureau of Statistics, Mark Williams, an economist at Capital Economics, a London-based research firm, calculates that in 2007 consumption accounted for a bigger slice of GDP growth than investment for the first time in seven years. Government restraints on bank lending caused investment growth to slow slightly, whereas consumer spending picked up. The often-quoted monthly figures on fixed-asset investment still show annual growth of over 20%, but these figures are misleading. Measured on the same national-accounts basis as GDP, to exclude property and land sales, real investment rose by a more modest 11% in the year to the fourth quarter, less than the growth in real consumption.

China's consumer-spending data are notoriously murky. The annual rate of growth in retail sales has surged from 13% in early 2006 to 20% in December of last year (see right-hand chart). Some sceptics argue that this increase is mainly due to a rise in inflation. However, the consumer-price index is not the appropriate deflator because it gives a much higher weight to food (the main source of the recent surge in inflation) than the share of food in total retail sales. Frank Gong, an economist at JPMorgan, argues that using a more appropriate deflator, real spending has clearly accelerated, especially on household goods. One important stimulus is that last year real urban disposable income per head rose faster than GDP for the first time in five years. This should help to keep consumption growing rapidly in 2008.

A growth rate in China driven more by consumption than by exports and investment is exactly what the American government has been demanding for several years. Indeed, it might be hoped that if China's trade surplus stops expanding and consumer demand plays a bigger role in growth, international trade tensions should subside. The snag is that even if net exports were no longer contributing to China's growth, its trade surpluses with America and Europe would continue to loom embarrassingly large. And, says Mr Williams, as Chinese exporters move into higher-value products, they will become more of a threat to Western producers.

In 2008 China will probably suffer its first slowdown in growth for seven years. But strong domestic demand should mean that an American recession would not bring the Chinese economy to a screeching halt. Indeed, to the extent that the economy was starting to overheat, a slowdown will be welcomed by Chinese policymakers. And if almost all of the slowdown comes from net exports, while domestic spending remains robust, then the whole world can cheer, too.

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The price of conservation

The unkindest cut

Feb 14th 2008
From The Economist print edition

Cameroon wants to sell a forest, but conservationists don't want to buy it

Get article background

FOR rent: 830,000 hectares of pristine tropical rainforest. Rich in wildlife, including forest elephants and gorillas. Provides a regionally important African green corridor. Price: $1.6m a year. Conservationist tenant preferred, but extractive forestry also considered. Please apply to the Cameroonian minister of forestry.

That, in essence, is what the government of Cameroon has been offering since 2001 in an attempt to make some money from a forest known as Ngoyla-Mintom. The traditional way would be to lease the land to a logging company. But Joseph Matta, the country's forestry minister, would rather lease it to a conservation group. The trouble is, he cannot find one that is prepared to take it off his hands.

The idea of conservation concessions has been around since 2000. It was introduced by an American charity called Conservation International, which realised the going rate for logging concessions was often so low that it could afford to outbid the foresters. It has since leased forests in Guyana—where it has 80,000 hectares of Upper Essequibo—and in Peru, Sierra Leone, Papua New Guinea, Fiji and Mexico. But even in 2001 it reckoned that at $2 a hectare Ngoyla-Mintom was too dear. Its land in Essequibo costs a mere 37 cents a hectare.

Mr Matta, of course, thinks Ngoyla-Mintom is worth every penny. Indeed, the price has gone up. The government now wants additional money to compensate Cameroon for forgoing the jobs and local development that come with logging. The forest is pristine habitat of a sort likely to contain some extremely valuable pieces of timber. It also connects three other large protected areas (see map), and thus forms an important part of a regionally important green corridor. Mr Matta says that if one group of conservationists or another doesn't cough up soon, he really will be forced to get on the phone to the loggers.

A compromise put forward by the World Wide Fund for Nature has failed to find favour. The WWF suggested keeping an unexploited core of Ngoyla-Mintom while the rest is opened to limited “sustainable” hunting and forestry. The quid pro quo would be a lower rent.

Cameroon, not surprisingly, would prefer the higher rent. Mr Matta also points out that even a little forestry would mean building roads that will present additional threats to the area. Ngoyla-Mintom is thus turning into an interesting test of what the conservation market will bear. There is a willing seller, but not

yet a willing buyer. The fine words of the rich-world's armchair conservationists butter few parsnips in the poor world. Here is a good opportunity to spread some butter.

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Nanotechnology

Casting a long line

Feb 14th 2008
From The Economist print edition

A new way of making seriously long, seriously thin fibres

TINY fibres, a ten-thousandth of the diameter of a human hair, can be used to produce materials with novel electrical, optical and mechanical properties—at least in theory. But before engineers are able to turn them into practical applications, such nanofibres (which have a width of a few nanometres, or billionths of a metre) need to be fabricated into wires, strips, tubes and other components. That, in turn, means making them reliably and in large quantities. And a new production method developed by Min-Feng Yu and his colleagues at the University of Illinois may make this possible.

At the moment nanofibres are made in a variety of ways, none of which is entirely satisfactory. One uses condensation and evaporation, and is rather like some of the steps employed to make the fine structures on silicon chips. Screen-printing techniques are also being developed for some materials. A third trick relies on a system known as electrospinning, which dates back to the 1930s. In this, an electrically charged syringe squirts a polymer mixed with a solvent towards an oppositely charged electrode. The voltage difference causes a jet of the solution to stream from syringe to electrode. On the way, the solvent evaporates and the fibre solidifies. The technique works well enough, but the fibre that piles up on the receiving electrode tends to break up on arrival. It can end up looking like a plate of spaghetti.

By comparison, the fibres made by Dr Yu are nice and straight—and also astonishingly long. Most nanofibres are only nanometres in length as well as width, but the longest one made by Dr Yu stretches for half a metre—and he only stopped there because he got fed up with winding it up on a spool only a few millimetres in diameter. In theory, his method should be able to produce nanofibres of any length.

That method relies, like electrospinning, on dissolving the stuff that is to become the fibre in a solvent. The tip of a micropipette 100 nanometres in diameter is used to draw up the beginning of the thread and pull it across a surface on which it can dry. As the solvent evaporates, what is left behind solidifies. After that, it is simply a question of reeling in the prey. As long as the thread does not break, it can be drawn. And by moving the pipette both horizontally and vertically it is possible to make three-dimensional patterns with more structure than a bowl of spaghetti. That means component-manufacture should be possible.

According to Dr Yu, his method will produce fibres at the rate of 3mm a second, which bodes well for turning it into an industrial process. It should thus provide an economical way of making nanofibres from a variety of materials, provided only that those materials are soluble in something that evaporates reasonably fast.

It should also allow some novel nanofibres to be produced for researchers to experiment with. One possibility Dr Yu foresees is to incorporate fibres into materials such as blocks of plastic, and then dissolve them away to create tiny channels through which fluids could flow. That would make so-called labs-on-a-chip, which are used for some sorts of chemical analysis, easier to fabricate. Another idea would be to make those embedded fibres from pairs of materials which, when laid together within a substance, may be made to react together to produce a composite with useful electrical or mechanical properties. And, if all else fails, at least it makes an entertaining alternative to fishing.

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The Richard Casement internship

Feb 14th 2008
From The Economist print edition

We invite applications for the 2008 Richard Casement internship. This is for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words that they think would be suitable for publication in the science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. A small stipend will be paid to the successful candidate. Applications must reach us by February 22nd. They should be sent to: casement2008@economist.com

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Rome and the Barbarians

The stranger in their midst

Feb 14th 2008 | VENICE
From The Economist print edition

BBC

An iconoclastic exhibition casts a fresh light on the Dark Ages

HISTORY has been unkind to the Barbarians. Some 1,600 years have passed since they began to redraw the boundaries of Europe, yet their names are best remembered for the anti-social and savage behaviour always associated with Vandals, Goths and Huns. Now an exhibition in Venice seeks to help rehabilitate them. The Vandals? They took Carthage when the locals were watching a circus. Huns? Attila was not always as bad as he is painted; he forbore, after all, to sack Rome. As for the Goths, they were not without their redeeming features, either.

This show is the latest sign of a growing interest—visible in fiction, film, television and even computer games—in the hordes that felled Rome. The chief curator is Jean-Jacques Aillagon, a French former culture minister, who dramatises the traditional view of the Barbarians by exhibiting a scattering of 19th-century paintings that depict them in the worst possible light. In one, two near-naked hooligans are destroying an elegant marble statue of a Roman nobleman. Mr Aillagon's historical method is to look for similarities between today's Europe and Europe during the decline and fall of the Roman empire.

“Europe at the start of the third millennium is living through a cultural revolution not unlike that of the first,” writes Mr Aillagon in the preface to the exhibition catalogue. Does this mean the Barbarians were entrepreneurial capitalists, economic migrants and asylum-seekers? Not quite. Attila the Hun (played in the BBC's latest biopic by Rory McCann, pictured above) is best known for his furious savagery. He behaved so cruelly in cities such as Aquileia and Verona that some survivors fled to islands in the nearby lagoon and laid the foundations of Venice.

The exhibition begins and ends with different varieties of triumphalism. It starts by proclaiming the shrewdness of a Roman empire that kept the Barbarians at bay for almost 300 years, after the shocking defeat by German tribes in the Teutoburg forest in 9AD until the final gasp of Rome's western stronghold in 476AD.

The first exhibits are sarcophagi decorated with mounted Roman soldiers trampling half-naked Barbarians. Since the Romans were fearful of this new enemy—named after the Greek *barbaros*, which mocked the babbling sounds of foreigners' languages—the efficient Roman propaganda machine commissioned public statues to reassure a nervous populace. There is a fine early example in the exhibition showing a kneeling, near-naked Barbarian with his hands tied behind his back.

The Romans decided that assimilation was the best form of defence, and many of the exhibits illuminate

the lengths to which Roman bureaucrats and soldiers went to absorb foreigners into the machinery of empire. Barbarian religions were widely tolerated, and one of the most striking exhibits, which was found in Arras, is a stone image of a bald Freyr, the Norse god of fruitfulness, as a fertility god, clutching his penis to his body.

With the fall of the Roman empire, historical evidence becomes scarce. Unlike the Romans, the Barbarians did not build for posterity, and their story is told principally through displays of funerary jewellery and weaponry, with the odd cooking pot thrown in. These can grow monotonous and, since the explanatory cards are not much help and are translated only randomly, the audio-guide is a necessity.

The second triumphalist episode, in which the cross becomes a common object in Barbarian graves, is reflected in the exhibits in the final rooms. Rather as Romans aspired to Greek virtues, the new Barbarian aristocracy aspired to live like Romans. By the sixth century no Roman custom was more influential than Christianity. What happened was a rare case of the religion of the defeated spreading among the victors.

The most significant converts to the new faith were the Franks, whose King Clovis converted in 508AD. By the eighth century their influence had spread so far that in 800AD Pope Leo III declared the Frankish king Charlemagne the first head of the Holy Roman Empire—the unified political arm of Christianity. This was truly the “Birth of a New World” of the show's title. An essay in the catalogue by Paolo Delogu, professor of medieval history at Sapienza University in Rome, points out that Charlemagne's empire was more or less the same as the area covered by the countries that signed the Treaty of Rome in 1957. (Anglo-Saxon Barbarians arrive in the exhibition almost as an afterthought, following the Viking invasions in the ninth and tenth centuries.)

The Patriarch of Venice, Cardinal Angelo Scola, refers in his essay to the hybridisation of contemporary Europe—“namely the mixing of peoples and civilisations to which our Western societies are now involved to an extraordinary and unprecedented degree.” The message he draws from “Rome and the Barbarians” seems to be: a new class of Barbarians is back, but don't be anxious. Be nice.

“Rome and the Barbarians: The Birth of a New World” is at Palazzo Grassi in Venice until July 20th. Tickets are available at www.palazzograssi.it

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Civilians in war

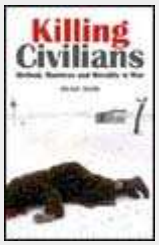
How best to protect them

Feb 14th 2008
From The Economist print edition

AP

Wrong place, wrong time

Killing Civilians: Method, Madness and Morality in War
By Hugo Slim



Columbia University Press; 300 pages; $29.95; Hurst; £20

Buy it at
Amazon.com
Amazon.co.uk

THE idea of a limited war, in which certain groups of people should be protected, is not new. In the fourth century St Augustine was already advocating the doctrine of a “just war”, based on civilian protection, proportionality and restraint. The same principles were enshrined in the 1949 Geneva Conventions and in the mandates of the various international tribunals set up over the past 15 years. Yet the moral ideal of civilian protection remains very much a minority view.

As Hugo Slim explains in “Killing Civilians”, marking out a special category of people called “civilians” from the wider enemy group in war “is a distinction that is not, and never has been, either clear, meaningful or right” for many perpetrators of war—nor even for many civilians themselves. A former humanitarian field-worker, Mr Slim is now chief scholar at the Centre for Humanitarian Dialogue in Switzerland. In this book he begins by examining in great and gory detail the appalling ways in which civilians have suffered in wars down the ages—by rape, massacre, torture, mutilation, famine, disease, trauma and so on. He goes on to look at why unarmed, supposedly harmless civilians so often turn out to be the victims in war.

The reasons, he suggests, include a desire to exterminate an entire group of purportedly inferior beings (genocide); a lust for power and domination (Genghis Khan); a thirst for revenge (as in so many of today's African wars); necessity (claimed by Palestinian suicide-bombers in their “asymmetrical” war against Israel); or plunder (common in the past, but rarer today). Civilians may also be killed or wounded through calculated recklessness (as when Israeli bulldozers raze Palestinian homes) or the inevitable accidents that are associated with inaccurate weapons (“collateral damage”).

But who qualifies as a civilian? International law provides only a negative description: someone who is not a member of the armed forces, who does not carry a weapon, who does not take part in hostilities. This is clearly inadequate. An estimated 60% of the world's weapons-bearers are civilians (hunters, for example). On the other hand, many of those who do not carry arms (or wear uniforms) may be very much part of the war effort—ammunition workers, porters, victuallers and the like. And what of the ideologues whose hate-filled doctrines fuel the conflict, the newspaper editors who disseminate the propaganda or the taxpayers who pay for the war? Should they be afforded special protection when the unwilling teenage conscript is not?

As Mr Slim himself concedes, there are rarely totally innocent bystanders in wartime. Osama bin Laden deems all the citizens of any democracy that goes to war to be “non-innocent”—and therefore legitimate

targets—because their political systems allow them to choose their leaders and thus to choose their wars. Although Mr Slim would not go that far, he agrees that it is a “fallacy” to suggest that all civilians are equally harmless in wartime. But, he argues (not totally convincingly), “it is a necessary fallacy if we are to try to limit the killing in war.”

Although most people the world over say they prefer non-violence, ordinary people can get sucked into organised violence with relative ease, Mr Slim notes. Psychological studies, such as the one Stanley Milgram carried out at Yale University and published in 1974, have repeatedly shown that, given certain conditions, 80% of most populations will either collude or directly take part in acts of violence. Only 10% will refuse outright, while another 10% will actively resist.

Some of the conditions that turn people into killers are well known: extreme coercion, obedience to authority, dehumanisation of the enemy, social bonding, hatred, indoctrination, revenge, survival. Alcohol, drugs, rituals, warpaint, even dark glasses can also help produce an “altered state” conducive to violence. Bloodletting can itself be intoxicating, even erotic. Mr Slim cites American soldiers in Vietnam saying that killing was like “getting screwed for the first time”, producing “an ache as profound as the ache of an orgasm”.

In the last part of the book, Mr Slim suggests ways in which others may be converted to the ideology of limited warfare with its central concern of civilian protection. Simply repeating that civilian suffering is illegal and wrong, as many human-rights groups tend to do, will do little to change potential perpetrators, he says. Appeals should rather be made to their self-interest, sense of fairness, even to old-fashioned virtues like mercy and honour. Some hope. Even Mr Slim admits the likelihood of success is slender.

This is a clear, impartial, honest work. It is scholarly yet free of jargon, compassionate yet not over-emotional, moral without being preachy, stuffed with facts and figures yet brought alive by a myriad of vivid historical, contemporary and personal anecdotes. In short, it is very good.

Killing Civilians: Method, Madness and Morality in War.
By Hugo Slim.
Columbia University Press; 300 pages; $29.95; Hurst; £20

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Benazir Bhutto

Her last words

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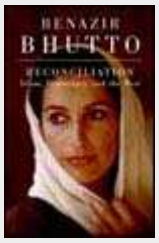
FEW ironies could be more bitter than the publication of a book on reconciliation shortly after its author has been murdered. Benazir Bhutto was assassinated late last year while campaigning for an election in Pakistan, now due to be held on February 18th. She had just returned from eight years in exile, some of which she had spent on this book. “Reconciliation” seeks to resolve “two historic clashes unfolding in the world today”: one within her religion, Islam, and the other between Islam and the West. It is a noble if Utopian aim. Bhutto was nothing if not ambitious.

AP

Yet she seemed uniquely qualified for the task. Educated at Harvard and Oxford, she was at home in the West, but also the first woman ever elected (twice, in fact) to head an Islamic government. The Pakistan People's Party—which her father founded, she inherited and her widower is now leading into the election—is the country's most popular secular political force, repeatedly trouncing Islamist parties.

Reconciliation: Islam, Democracy, and the West
By Benazir Bhutto



Harper; 336 pages; $27.95. Simon & Schuster; £17.99

Buy it at
Amazon.com
Amazon.co.uk

Much of this book's argument has been rehearsed before. Bhutto defends Islam's liberal, tolerant traditions. The first person to embrace the religion, she points out, was a woman, Bibi Khadijah, later to become the Prophet's wife. And she debunks as “convenient and simplistic” the notion that Islam and democracy are somehow incompatible. Yet her own political overview of Muslim countries tends also to be rather simplistic.

She tackles head-on the thesis of Samuel Huntington's essay and book, “The Clash of Civilisations”, declaring herself a “reconciliationist”, not a “clasher”. She even proposes her blueprint for reconciliation: a kind of Islamic Marshall plan, using the petrodollars of the Gulf and the riches of the West, Japan and China to assist “the Islamic world to leap into modernity”.

The observation that economic backwardness fuels anti-Western feeling and fanaticism, however, is hardly new. Familiar, too, is her analysis of the culpability of the West in propping up dictators where they seem strategically useful, undermining its claims to be promoting democracy. The victims of this hypocrisy include, of course, her own country, which, like a recent cover of this newspaper, she calls “the most dangerous place in the world”. Her effort to make it safer led her last year to negotiate with Pervez Musharraf, the president she had long reviled as an unprincipled military dictator. She recounts the pragmatic haggling that enabled her return, at the expense, her critics would argue, of the unity of the civilian democratic opposition.

Here as elsewhere in this book and in Bhutto's autobiography, “Daughter of the East”, there is a tension between the fervour of her expressed ideals and the reality of her political life. Her refusal to acknowledge any mistakes during her deeply disappointing stints as prime minister may be inevitable in a campaigning politician. But it made it hard to share her enthusiasm for what she might achieve at the third attempt.

That attempt, however, was an act of enormous bravery. The first chapter of this book is her account of her disastrous homecoming last October. A bomb attack on her motorcade in Karachi left 179 people dead. The most chilling detail in her narrative is that she believed one of the bombs came in the form of plastic explosives concealed in the clothes of a baby in the crowd, dressed in her party's colours.

Whatever the bomb-delivery mechanism, the atrocity made it even plainer that to continue campaigning would put her own life at risk. She may not have had the answer to Pakistan's problems, let alone the world's, but Benazir Bhutto was nothing if not courageous.

Reconciliation: Islam, Democracy, and the West.
By Benazir Bhutto.
Harper; 336 pages; $27.95. Simon & Schuster; £17.99

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New fiction

Bugs' life

Feb 14th 2008
From The Economist print edition

PETER CAREY'S tenth novel throbs with a queasy, visceral energy. It concerns a seven-year-old boy called Che, the son of radical activists who are wanted by the FBI, and his former babysitter, Dial (short for dialectic). Together Che and Dial travel from New York, where the boy lives with his rich grandmother, across America, in search of his parents. This leads them to a squalid hippie community in Queensland, Australia, where most of the story takes place.

Mr Carey raises interesting questions about parenting, class, the hypocrisy of hippiedom and America's relation to the rest of the world. The book is also funny, particularly in the description of some of its male characters, who bring to mind the cartoon creations of Robert Crumb: rank, weedy, lustful.

His Illegal Self
By Peter Carey

Knopf; 288 pages; $24.95.
Faber and Faber; £16.99

Buy it at
Amazon.com
Amazon.co.uk

But what is memorable about “His Illegal Self” is the way it evokes the various kinds of rage and confusion that torment its characters. The tangled, overripe Queensland rainforest becomes a mirror of their states of mind. This is a familiar literary trick. But Mr Carey pulls the pathetic fallacy out of the hat with panache. He conjures a natural world whose beauty is wounded or wounding. Grass seeds tickle Che's bare skin “like biting things with eyes and legs”; angry words settle in Dial's gut “like a large grey river rock, little bugs crawling out beneath”; trees “drown” in the twilight; the sunset “bleeds” into the horizon.

This sort of language is combined with an elliptical style in which the connective tissue between moments or scenes is often missing. The overall effect is powerfully unsettling. Moments of happiness or calm are fleeting, barely felt, as when Che waits for Dial in a car with the window open, “the soft breeze washing across his skin”.

One aspect of the book is less pleasing. Something is wrong with the narrative voice. The diction is mostly American (“a real big grin”; “pissed” as in angry), but with occasional Aussie inflections. Maybe it is meant to reflect how Che thinks and speaks. Or maybe it is how Mr Carey, an Australian, thinks and speaks after 20 years in America. Either way, it jars.

Two of Mr Carey's earlier novels, “Oscar and Lucinda” and “True History of the Kelly Gang”, won the Man Booker prize. “His Illegal Self” is not on their level. But even on an off day Mr Carey can be dazzling.

His Illegal Self.
By Peter Carey.
Knopf; 288 pages; $24.95. Faber and Faber; £16.99

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Vladimir Nabokov

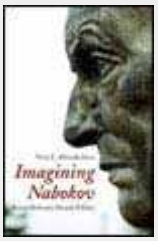
Imagination ablaze

Feb 14th 2008
From The Economist print edition

IMAGINARY conversations with dead people are risky materials for a book, as are authorial comparisons with geniuses. So Nina Khrushcheva, great-granddaughter of the Soviet leader, Nikita Khrushchev, and herself an émigré Russian intellectual, is doubly ambitious in her slim volume of autobiographical literary and political reflections on Vladimir Nabokov, believed by many to be the greatest Russian writer of the last century.

She is ambitious too in her panoramic and sometimes dizzying sweeps through two centuries of Russian culture and politics. The reader who opens the book and finds references (on a random two pages) to Tertz, Pushkin, the Mnemosyne, Koncheyev, Godunov-Cherdyntsev, Brodsky and the "bamboo bridge" between poetry and prose could be forgiven for feeling intimidated. If he happens then on the sentence, "I saw myself in many ways walking in Nabokov's footsteps," he might even sense a whiff of impudence.

Imagining Nabokov: Russia Between Art and Politics
By Nina L. Khrushcheva



Yale University Press; 233 pages; $28 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

But Ms Khrushcheva's approach is both accessible and modest. A self-deprecating tone saves her from pretentiousness. And from her opening contention, that "Nabokov's journey from obscure Russian émigré writer to the author of American and world literary classics is essential for understanding Russia's past, its present and its future", she wears her learning lightly. If you are not quite sure at the beginning of the book who Pushkin was and why he matters, you will know enough by the end to appreciate her finely drawn comparisons and contrasts between these two towering literary figures, and feel only mildly miffed by the publisher's sloppy omission of an index, or any pictures of the places she so eloquently describes.

Ms Khrushcheva's central point is that Nabokov bridges the gap between tsarist Russia (mystical, feudal and isolated) and the West far better than either the forced modernisation of communism, the chaotic shock capitalism of the 1990s or the authoritarian self-confidence of the Putin era. Nabokov, she says, presents the future of Russia for this century: a place that balances both the "indifference of democracy" and "heroes of kindness" such as perhaps his greatest character, Timofei Pnin (an émigré academic who is both besotted with America and at sea in it).

That reflects the two great dilemmas in Russian intellectual life: reconciling the horrors of the past with the potential of the present, and defining Russia's relationship with the West. The first of these is hampered by scanty foundations: Russia's rulers have shown an unpleasant taste for persecuting the brightest and best, sending them into exile, or simply having them murdered. That makes it all the harder to find a firm foundation for confident engagement with the West without surrendering the spiritual and emotional qualities of which Russians are justly proud.

Nabokov and his works, Ms Khrushcheva explains, taught her "Westernisation": how to be an individual in a place that lacked a state ideology to provide form and meaning to life. "How to be a single 'I' instead of a member of the many 'we' in that vast undifferentiated traditional collective of the peasant commune, the proletarian mass, the Soviet people, the post-communist *Rossiyane* [Russian nationals]...He kept his soul without having to remain backward in order to do so."

Fired up, Ms Khrushcheva returned to Moscow in 2001, hoping to share this gospel with literature students, only to find she was too late. Nabokov was already the flavour of the age. Her students could quote his works by heart. "They found the 19th-century writers too dramatic, too pathetic, and those of the 20th century too critical, unhappy and dissident. Post-communist literature is too trashy. But Nabokov is just right!"

That didn't survive Putinism (another sign of her country's impatience for bad short-cuts, she reckons)

but inspired her to write this excellent book, and to dedicate it to the great Abram Tertz. That is a good choice. Tertz was the pen name of Andrei Sinyavsky, sentenced to seven years' hard labour in 1966 for the crime of publishing literary criticism abroad. Protests on his behalf by Andrei Sakharov and others marked the birth of the Soviet dissident movement. His “Strolls with Pushkin” 30 years ago was criticised by many for being insufficiently reverential. Ms Khrushcheva's imaginative memoir may be too. That is all to its credit.

Imagining Nabokov: Russia Between Art and Politics.
By Nina L. Khrushcheva.
Yale University Press; 233 pages; $28 and £18.99

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New film

The living daylights

Feb 14th 2008 | LOS ANGELES
From The Economist print edition

Forty years on, a master director returns to the zombie plague

Allstar

That “ohmigod” moment

GEORGE ROMERO'S “Diary of the Dead” portrays a zombie outbreak, a menace Mr Romero first made famous with his 1968 shocker, “Night of the Living Dead”, and which has since been explored by generations of film-makers.

Films purporting to show real events captured with a video camera eventually run into a problem of credibility: when all hell is breaking loose, no one in his right mind is going to keep filming. Mr Romero deflects disbelief by opting for the same solution as his predecessors (his camera-wielding first-person narrator is an obsessed film-maker), though he updates it by having the other characters accuse Jason Creed (Joshua Close) of succumbing to the malady of “the YouTube generation”.

When the zombie outbreak occurs, Creed and his crew abandon the cheap mummy film they are making and set out across America documenting mankind's losing battle with a cannibalistic army of the living dead. “You think nothing's real until you've filmed it,” says his angry girlfriend Debra (Michelle Morgan), more than once. Neither novel nor true, that observation is a piece of misdirection on the film-maker's part. Video in “Diary of the Dead” is simply a new way for Mr Romero to tell a story, and to do it without a studio breathing down his neck.

After three official sequels to “Night of the Living Dead” and scores of unofficial ones, the mother lode should be exhausted, but Mr Romero keeps finding new ways to terrify his audiences with his rotting brainchildren. The third act, set in a deserted mansion with surveillance cameras in every room, breaks scary new ground in suspense, and the indescribable last shot is as horrifically beautiful as one of Francisco Goya's black paintings. “Diary of the Dead” effortlessly refutes its own diatribes against digital technology, which has permitted this unrepentant maverick to make his best film yet.

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Maharishi Mahesh Yogi

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From The Economist print edition

Magnum

Maharishi Mahesh Yogi, guru and tycoon, died on February 5th, aged 91 (probably)

VISITORS entering the World Bank in Washington one sweaty day in 1987 might have been surprised to come upon a team of smiling young men, legs neatly folded into the lotus position, hopping like frogs. In fact, most visitors were probably not surprised at all. Like many happenings connected with Maharishi Mahesh Yogi, this display of “yogic flying” had been well advertised. The only surprise was that the bank, usually cast as a bastion of hard-headed rationality, should provide such a ready audience for an event whose aim was not physical fitness but world peace.

Thirty years earlier the maharishi, who had studied maths and physics at Allahabad University, had calculated that one person practising the transcendental meditation he promoted could induce virtuous behaviour among 99 non-meditators. He had already, in 1944, helped to get 2,000 Vedic pandits, learned followers of one of the four holy books of the Hindus, to chant mantras in an effort to bring the second world war to an end. He had again assembled meditators in 1963 to solve the Cuban missile crisis. But his ambitions were bigger—world peace, no less—and by the 1980s he had come to realise that to bring harmony to a world of 5 billion people, he would need 50m meditators.

Undaunted, he did the arithmetic again, this time factoring in meditation of deep purity and concentration (including yogic flying), and happily found he needed a number no greater than the square root of 1%—a mere 7,000 or so. Accordingly, 7,000 flyers were assembled during the Taste of Utopia conference in Fairfield, Iowa, in 1984. Annoyingly, though, the “wide range of positive effects worldwide” ended with the conference. Something similar happened after 7,000 students gathered for yogic flying and Vedic chanting near Delhi in 1988. The Berlin Wall came down all right and the cold war ended, but the money needed to keep the group airborne ran out and, dammit, “new tensions” started to arise in the world.

If only the maharishi had had the necessary funds. Actually, he had. He may not have known how to make peace, but he certainly knew how to make money. After years studying under a Hindu divine in the late 1950s, he had pronounced himself a maharishi (great seer) and set up the Spiritual Regeneration Movement. This took transcendental meditation, which he had trademarked, to the world, with Hollywood one of the first stops. Disciples paid $2,500 for a five-day course, learning how to reach a “deeper level” of consciousness by inwardly repeating a mantra twice a day for 20 minutes.

Real fame came when the Beatles beat a path to his door, seeking enlightenment and spirituality through good vibrations. George Harrison had already fallen under the spell of the sitar and the maharishi's message appealed to John Lennon's angry pacifism. Before long the Fab Four were ensconced in the maharishi's ashram in the foothills of the Himalayas. Their stay was only a modified success, though, with Lennon and Ringo Starr complaining about the food, and all of them, perhaps, beginning to resent their host's transcendental interest in using them for publicity, if not an outright percentage of their earnings.

No matter. Plenty of others were ready to step forward for a dose of spiritual bliss, and not all were

celebrities. In America meditation was judged to be just the tonic for a variety of people ranging from underperforming executives to recidivist prisoners. An army general even joined the board of Maharishi International University, set up in Fairfield in 1974. All in all, some 5m people are said to have been taught the maharishi's techniques since 1955.

His other ventures blossomed, too. A property empire was valued at over $3 billion ten years ago. A television station offered meditation courses to subscribers in 144 countries. Companies sold unguents, books, videos and Ayurvedic treatment. His political movement, the Natural Law Party, which in the 1990s pursued the goal of world government by fighting elections in America, Britain and several other countries, was less successful, and eventually folded. This, however, did not stop the maharishi then launching the raam, a global currency intended to foster development.

Imagine (all the things he didn't do)

Crank? Crackpot? Charlatan? Maybe all three. Yet the maharishi was generally benign. He did not use his money for sinister ends. He neither drank, nor smoked, nor took drugs. Indeed, he is credited with weaning the Beatles off dope (for a while). He did not accumulate scores of Rolls-Royces, like Bhagwan Shree Rajneesh; his biggest self-indulgence was a helicopter. Nor was he ever accused of molesting choirboys; his greatest sexual impropriety, it was said, was to make a pass at Mia Farrow. He giggled a lot, and plainly had no lack of self-esteem. But his egotism did not mean he was always wringing his hands at pop concerts or blethering at Davos; after the 1960s he seldom appeared in public.

Moreover, his message was entirely laudable. He did not promote a cult or even a mainstream religion preaching original sin, purgatory and the likelihood of eternal damnation. He just wanted to end poverty, teach people how to achieve personal fulfilment and help them to discover “Heaven on Earth in this generation”. And yogic flying, of course.

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Overview

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GDP in the **euro area** rose by 0.4% in the fourth quarter. In the currency zone's two largest economies, Germany and France, GDP was 0.3% higher compared with the previous quarter. Spain's GDP rose by 0.8%.

Japan's GDP rose by 0.9% in the fourth quarter, according to a preliminary estimate, twice what had been forecast.

The value of retail sales in **America** rose by 0.3% in January, more than expected.

Consumer prices in **Britain** rose by 2.2% in the year to January. In its quarterly *Inflation Report*, Britain's central bank said inflation would probably rise above 3% later this year. However, it also said that inflation would slip below the 2% target in two years' time if its benchmark interest rate stayed at 5.25%. Britain's unemployment rate fell from 5.4% to 5.2% in the three months to December.

In a surprise move, **Sweden's** central bank raised its benchmark interest rate by 0.25 percentage points, to 4.25%. The bank said that a strong job market and supply pressures meant that higher rates were needed to bring inflation down towards the 2% target. The Riksbank advised that interest rates would stay close to 4.25% this year, but cautioned that its assessment was “uncertain”.

Canada's unemployment rate fell from 6% to 5.8% in January, matching the 33-year low reached last October. **Australia**'s unemployment rate fell to 4.1% in January, also a 33-year low.

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Output, prices and jobs

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From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.6	+2.5	+1.5 Dec	+4.1 Dec	+2.5	+2.9	4.9 Jan
Japan	+2.0 Q4	+3.7	+1.3	+1.8	+0.8 Dec	+0.7 Dec	+0.3	+0.6	3.8 Dec
China	+11.2 Q4	na	+10.1	+9.6	+17.4 Dec	+6.5 Dec	+2.8	+3.5	9.5 2007
Britain	+2.9 Q4	+2.4	+1.7	+2.1	+0.7 Dec	+2.2 Jan§	+2.7	+2.3	5.2 Dec††
Canada	+2.9 Q3	+2.9	+1.7	+2.4	+0.7 Nov	+2.4 Dec	+1.7	+1.8	5.8 Jan
Euro area	+2.7 Q3	+2.8	+1.8	+1.9	+1.3 Dec	+3.2 Jan	+1.8	+2.4	7.2 Dec
Austria	+3.3 Q3	+3.0	+2.5	+2.5	+1.1 Nov	+3.6 Dec	+1.5	+2.3	4.3 Dec
Belgium	+2.6 Q3	+2.2	+1.9	+2.0	+3.2 Nov	+3.5 Jan	+1.7	+2.3	10.8 Dec‡‡
France	+2.0 Q4	+1.2	+1.7	+1.9	+1.4 Dec	+2.6 Dec	+1.5	+2.2	7.9 Q3§§
Germany	+1.8 Q4	+1.1	+1.8	+2.0	+4.4 Dec	+2.7 Jan	+1.6	+2.1	8.1 Jan
Greece	+3.8 Q3	+3.6	+2.4	+2.5	+0.8 Dec	+3.9 Dec	+2.9	+3.3	7.6 Nov
Italy	+1.9 Q3	+1.7	+1.2	+1.5	−6.4 Dec	+2.9 Jan	+1.7	+2.4	5.9 Q3
Netherlands	+4.4 Q4	+4.7	+2.0	+2.1	+10.2 Dec	+2.0 Jan	+1.4	+2.1	4.1 Dec††
Spain	+3.5 Q4	+3.2	+2.4	+2.4	−0.3 Dec	+4.2 Dec	+2.7	+3.2	8.6 Dec
Czech Republic	+6.0 Q3	+5.8	+4.8	+5.3	+2.9 Dec	+7.5 Jan	+1.3	+5.4	6.1 Jan
Denmark	+1.7 Q3	+6.7	+1.6	+1.8	−2.6 Dec	+2.9 Jan	+1.8	+2.2	2.7 Dec
Hungary	+0.7 Q4	+0.8	+3.0	+3.7	+5.3 Dec	+7.1 Jan	+7.8	+4.5	7.7 Dec††
Norway	+3.1 Q3	+5.6	+2.9	+2.6	−1.9 Dec	+3.7 Jan	+1.2	+2.4	2.5 Nov††
Poland	+6.4 Q3	na	+5.2	+4.4	+6.2 Dec	+4.0 Dec	+1.4	+3.6	11.4 Dec‡‡
Russia	+7.7 Q3	na	+6.7	+5.7	+6.5 Dec	+12.6 Jan	+8.2	+11.5	6.1 Dec‡‡
Sweden	+2.5 Q3	+2.4	+2.6	+2.6	+1.2 Dec	+3.5 Dec	+1.6	+2.8	5.6 Dec‡‡
Switzerland	+2.9 Q3	+1.3	+2.0	+2.0	+10.7 Q3	+2.4 Jan	+0.1	+1.6	2.6 Jan
Turkey	+1.5 Q3	na	+3.8	+5.2	+7.7 Nov	+8.2 Jan	+9.9	+8.1	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+3.5	+3.3	+1.6 Q3	+3.0 Q4	+3.3	+3.1	4.1 Jan
Hong Kong	+6.2 Q3	+7.0	+4.8	+5.4	−2.1 Q3	+3.8 Dec	+2.3	+3.9	3.4 Dec††
India	+8.9 Q3	na	+7.7	+7.2	+7.6 Dec	+5.5 Dec	+6.9	+6.1	7.2 2007
Indonesia	+6.5 Q3	na	+6.1	+5.7	+2.0 Nov	+7.4 Jan	+6.3	+6.4	9.8 Feb
Malaysia	+6.7 Q3	na	+5.7	+5.9	+5.7 Dec	+2.4 Dec	+3.1	+2.8	3.1 Q3
Pakistan	+7.0 2007**	na	+5.4	+5.4	+4.7 Nov	+11.9 Jan	+6.6	+7.9	6.2 2006
Singapore	+5.4 Q4	−4.8	+4.9	+4.7	−1.7 Dec	+4.4 Dec	+0.8	+3.0	1.6 Q4
South Korea	+5.5 Q4	+6.3	+4.6	+4.6	+12.4 Dec	+3.9 Jan	+1.7	+2.9	3.1 Dec
Taiwan	+6.9 Q3	na	+4.5	+4.0	+10.7 Dec	−1.1 Jan	+0.4	+2.3	4.0 Dec
Thailand	+4.9 Q3	+6.3	+4.8	+4.1	+11.6 Dec	+4.3 Jan	+3.0	+3.2	1.1 Nov
Argentina	+8.7 Q3	+11.7	+6.2	+4.7	+8.3 Nov	+8.2 Jan	+9.7	+11.4	7.5 Q4‡‡
Brazil	+5.7 Q3	+6.9	+4.5	+4.1	+6.4 Dec	+4.6 Jan	+3.0	+4.5	7.4 Dec‡‡
Chile	+4.1 Q3	−2.5	+4.5	+5.0	+3.4 Dec	+7.5 Jan	+2.8	+5.4	7.2 Dec†††‡
Colombia	+6.6 Q3	+6.9	+5.5	+4.5	+7.4 Nov	+1.1 Jan	+4.7	+5.0	9.4 Nov‡‡
Mexico	+3.7 Q3	+5.9	+2.7	+3.4	+0.8 Nov	+3.7 Jan	+4.0	+4.1	3.4 Dec‡‡
Venezuela	+8.7 Q3	na	+4.9	+3.9	+2.7 Sep	+24.1 Jan	+18.4	+24.0	8.5 Q3‡‡
Egypt	+8.1 Q4	na	+7.3	+6.7	+7.5 2007**	+6.9 Dec	+12.4	+6.6	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+4.1	+4.6	+2.5 Nov	+3.4 Dec	−0.1	+2.8	7.3 Q3
Saudi Arabia	+4.3 2006	na	+6.0	+5.6	na	+6.5 Dec	+2.9	+5.0	na
South Africa	+5.1 Q3	+4.7	+4.7	+5.4	+4.4 Nov	+9.0 Dec	+5.8	+6.6	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.5 Q4	na	+4.3	+4.7	−2.1 Dec	+11.0 Jan	+5.1	+8.2	5.2 Nov
Finland	+4.1 Q3	+3.0	+3.1	+2.8	+2.6 Dec	+3.8 Jan	+2.3	+2.2	6.7 Dec
Iceland	+4.3 Q3	+9.9	+2.3	+2.8	+7.6 2006	+5.9 Jan	+6.9	+4.6	0.8 Dec‡‡
Ireland	+4.1 Q3	+5.6	+2.8	+2.9	+0.8 Dec	+4.7 Dec	+4.9	+3.0	4.9 Jan
Latvia	+9.6 Q4	na	+6.6	+6.5	−5.4 Dec	+15.8 Jan	+7.1	+10.5	5.4 Dec
Lithuania	+7.9 Q4	−4.3	+7.4	+6.5	na	+9.9 Jan	+4.0	+6.4	4.6 Jan‡‡
Luxembourg	+5.6 Q3	+2.8	+4.4	+4.8	−1.3 Oct	+3.4 Dec	+2.3	+2.3	4.4 Dec‡‡
New Zealand	+3.4 Q3	+1.1	+2.1	+2.7	+1.3 Q3	+3.2 Q4	+2.6	+2.6	3.4 Q4
Peru	+8.1 Nov	na	+6.1	+6.7	+11.5 Nov	+4.2 Jan	+0.6	+2.7	8.0 Nov‡‡
Philippines	+7.3 Q4	+7.4	+5.3	+5.4	−2.9 Nov	+4.9 Jan	+3.9	+3.5	6.3 Q4‡‡
Portugal	+1.8 Q3	−0.1	+2.0	+2.2	−0.9 Dec	+2.7 Dec	+2.5	+2.3	7.9 Q3‡‡
Slovakia	+14.1 nil	nil	+7.0	+5.7	+14.2 Dec	+3.8 Jan	+3.0	+2.7	8.0 Dec††
Slovenia	+6.3 Q3	na	+4.8	+4.0	nil Dec	+6.4 Jan	+2.7	+3.6	7.3 Nov‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Jan. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Feb 14th 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Feb 5th	Feb 12th*	% change on one month	% change on one year
Dollar index				
All items	239.1	244.1	+5.4	+31.7
Food	241.6	243.2	+5.4	+54.1
Industrials				
All	235.9	245.3	+5.5	+11.0
Nfa†	186.0	187.6	+2.6	+19.9
Metals	263.2	276.9	+6.6	+8.1
Sterling index				
All items	184.6	188.8	+6.0	+30.6
Euro index				
All items	151.0	154.7	+7.3	+17.5
Gold				
$ per oz	890.45	915.75	+0.7	+37.9
West Texas Intermediate				
$ per barrel	88.29	92.65	+1.0	+57.2

*Provisional †Non-food agriculturals.

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Football wealth

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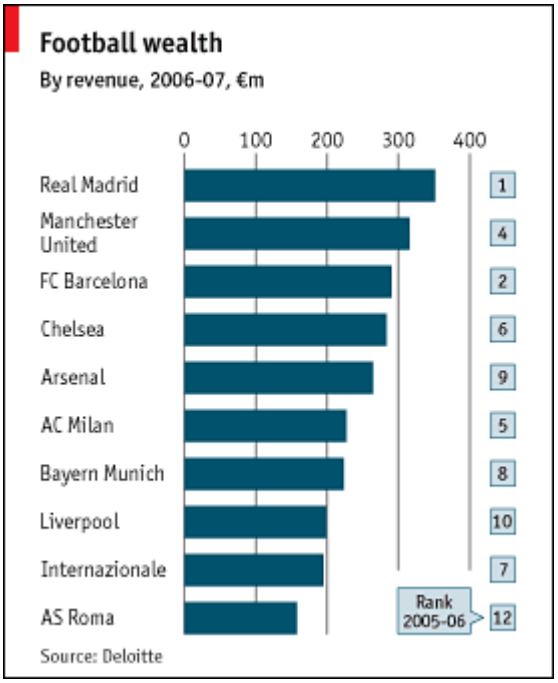

Real Madrid completed a hat-trick of titles in 2006-07, by topping Deloitte's annual Football Money League for the third year in a row. The club, which also won the Spanish championship last year, saw its gross revenues rise to €351m ($475m), a 20% annual increase. Arsenal joined two other English clubs, Manchester United and Chelsea, in the top five, thanks to a 37% increase in revenue. This is the first time that one country has provided three of the Money League's top five. Italy is also well represented, with three clubs in the top ten. One notable absentee is Juventus, which dropped from third to twelfth. The club's revenue tumbled after it was relegated from Italy's top league for its part in a match-fixing scandal.

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Trade, exchange rates, budget balances and interest rates

Feb 14th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Feb 13th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−813.0 Nov	−752.4 Q3	−4.8	–	–	−2.5	2.80	3.69
Japan	+105.6 Dec	+212.8 Dec	+4.8	108	121	−2.4	0.74	1.42
China	+261.5 Dec	+249.9 2006	+10.7	7.20	7.75	0.2	4.50	3.94
Britain	−175.1 Dec	−129.4 Q3	−3.7	0.51	0.51	−3.2	5.60	4.61
Canada	+48.7 Nov	+16.3 Q3	+0.3	1.00	1.18	0.6	3.27	3.93
Euro area	+47.6 Nov	+32.8 Nov	nil	0.69	0.77	−0.9	4.34	3.95
Austria	+1.2 Nov	+11.3 Q3	+3.1	0.69	0.77	−0.7	4.34	4.04
Belgium	+18.4 Nov	+13.3 Sep	+2.5	0.69	0.77	−0.6	4.40	4.21
France	−53.8 Dec	−33.8 Dec	−1.4	0.69	0.77	−2.8	4.34	4.06
Germany	+272.5 Dec	+220.7 Dec	+5.7	0.69	0.77	0.6	4.34	3.95
Greece	−53.7 Oct	−44.8 Nov	−12.9	0.69	0.77	−2.7	4.34	4.33
Italy	−10.7 Nov	−43.1 Nov	−2.4	0.69	0.77	−2.6	4.34	4.32
Netherlands	+57.0 Dec	+57.2 Q3	+7.3	0.69	0.77	0.3	4.34	4.03
Spain	−130.1 Nov	−133.0 Oct	−9.0	0.69	0.77	nil	4.34	4.12
Czech Republic	+4.2 Dec	−5.4 Dec	−3.8	17.5	21.6	−2.6	3.92	4.42
Denmark	+3.8 Dec	+3.2 Dec	+1.3	5.12	5.73	2.8	4.05	4.05
Hungary	−0.6 Dec	−6.8 Q3	−6.0	180	194	−4.1	7.78	7.65
Norway	+59.0 Dec	+59.9 Q3	+15.8	5.48	6.23	17.9	5.99	4.39
Poland	−11.8 Nov	−15.8 Nov	−4.1	2.47	2.97	−2.0	5.67	5.78
Russia	+132.1 Dec	+76.6 Q4	+4.3	24.7	26.5	1.2	10.25	6.40
Sweden	+17.8 Dec	+29.4 Q3	+6.0	6.42	7.00	2.2	4.23	4.01
Switzerland	+11.6 Dec	+69.6 Q3	+14.7	1.11	1.24	0.6	2.75	2.83
Turkey	−62.8 Dec	−35.7 Nov	−7.1	1.20	1.40	−2.9	16.58	6.17‡
Australia	−18.0 Dec	−49.9 Q3	−5.4	1.12	1.28	1.5	7.65	6.24
Hong Kong	−23.5 Dec	+26.9 Q3	+6.4	7.80	7.81	2.6	2.27	2.57
India	−68.9 Dec	−10.9 Q3	−2.3	39.8	44.1	−3.2	7.25	7.71
Indonesia	+39.8 Dec	+10.3 Q3	+2.5	9,260	9,039	−1.8	8.06	6.78‡
Malaysia	+29.3 Dec	+28.7 Q3	+12.0	3.24	3.49	−3.1	3.62	3.27‡
Pakistan	−16.1 Jan	−7.3 Q3	−6.9	62.9	60.8	−5.1	10.03	9.63‡
Singapore	+36.1 Dec	+46.3 Q3	+22.4	1.42	1.53	0.1	1.56	2.31
South Korea	+10.7 Jan	+6.0 Dec	+0.8	946	934	0.2	5.42	5.17
Taiwan	+16.3 Jan	+28.4 Q3	+5.9	31.6	33.0	−2.1	2.60	2.41
Thailand	+12.1 Dec	+14.9 Dec	+2.4	32.9	34.4	−2.1	3.30	3.67
Argentina	+11.2 Dec	+6.8 Q3	+2.0	3.16	3.10	1.2	10.31	na
Brazil	+38.5 Jan	+3.6 Dec	−0.1	1.75	2.08	−2.5	11.18	6.16‡
Chile	+23.7 Jan	+6.7 Q3	+4.0	467	548	5.4	6.24	4.18‡
Colombia	−1.4 Nov	−5.2 Q3	−3.8	1,900	2,237	−1.3	8.54	5.89‡
Mexico	−11.2 Dec	−7.5 Q3	−1.4	10.8	10.9	nil	7.44	7.55
Venezuela	+23.4 Q3	+20.2 Q3	+7.3	4.98	4.23§	−2.6	13.77	6.55‡
Egypt	−18.0 Q3	+1.2 Q3	+0.9	5.51	5.70	−7.0	5.78	4.89‡
Israel	−10.7 Jan	+5.9 Q3	+3.3	3.61	4.24	−1.4	4.37	5.15
Saudi Arabia	+146.6 2006	+98.9 2006	+21.8	3.75	3.75	12.0	3.00	na
South Africa	−10.3 Dec	−19.9 Q3	−7.8	7.72	7.18	0.6	11.25	8.73
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.2 Nov	−3.2 Nov	−14.1	10.7	12.0	1.3	6.63	na
Finland	+13.1 Nov	+14.8 Nov	+4.2	0.69	0.77	3.7	4.25	4.04
Iceland	−1.7 Jan	−3.0 Q3	−10.3	67.3	67.9	2.3	13.57	na
Ireland	+37.3 Nov	−11.1 Q3	−3.2	0.69	0.77	−1.1	4.34	4.18
Latvia	−7.2 Dec	−6.4 Dec	−21.5	0.48	0.54	1.0	6.88	na
Lithuania	−7.1 Dec	−5.3 Nov	−14.2	2.37	2.65	−0.6	4.83	na
Luxembourg	−6.0 Nov	+4.7 Q3	na	0.69	0.77	0.9	4.34	na
New Zealand	−3.9 Dec	−10.2 Q3	−7.4	0.78	1.46	3.8	7.30	6.36
Peru	+8.3 Nov	+2.2 Q3	+1.3	0.34	3.19	1.4	5.20	na
Philippines	−5.0 Nov	+5.8 Sep	+4.6	41.0	48.4	−0.3	6.81	na
Portugal	−26.4 Dec	−19.8 Nov	−8.1	0.69	0.77	−2.6	4.34	4.22
Slovakia	−0.9 Dec	−0.8 Oct	−2.4	22.6	26.5	−2.3	4.15	4.24
Slovenia	−2.9 Dec	−1.9 Nov	−2.5	0.69	0.77	−0.7	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Feb 14th 2008
From The Economist print edition

Markets

	Index Feb 13th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,552.2	+2.9	+0.7	+0.7
United States (S&P 500)	1,367.2	+3.1	–3.6	–3.6
United States (NAScomp)	2,373.9	+4.2	–1.7	–1.7
Japan (Nikkei 225)	13,068.3	–0.2	–24.1	–16.5
Japan (Topix)	1,285.4	–1.0	–23.5	–15.8
China (SSEA)	4,712.7	–2.4	+67.4	+81.5
China (SSEB, $ terms)	310.4	–2.3	+120.1	+138.6
Britain (FTSE 100)	5,880.1	+0.1	–5.5	–5.2
Canada (S&P TSX)	13,282.3	+3.2	+2.9	+19.7
Euro area (FTSE Euro 100)	1,198.7	+1.2	–6.2	+3.6
Euro area (DJ STOXX 50)	3,803.2	+1.1	–7.7	+2.0
Austria (ATX)	3,906.0	+0.7	–12.5	–3.3
Belgium (Bel 20)	3,714.0	+0.4	–15.4	–6.5
France (CAC 40)	4,855.4	+0.8	–12.4	–3.2
Germany (DAX)*	6,973.7	+1.8	+5.7	+16.8
Greece (Athex Comp)	4,352.4	–0.2	–0.9	+9.4
Italy (S&P/MIB)	34,014.0	+0.5	–17.9	–9.3
Netherlands (AEX)	444.2	+0.4	–10.3	–1.0
Spain (Madrid SE)	1,438.1	+1.4	–7.5	+2.2
Czech Republic (PX)	1,569.9	+2.4	–1.2	+17.8
Denmark (OMXCB)	408.9	+3.0	–3.6	+6.5
Hungary (BUX)	24,545.5	+6.0	–1.2	+4.5
Norway (OSEAX)	473.8	+0.5	–5.7	+7.2
Poland (WIG)	49,770.4	+3.8	–1.3	+16.0
Russia (RTS, $ terms)	2,004.5	+2.9	–2.2	+4.3
Sweden (Aff.Gen)	300.8	+0.2	–17.7	–12.2
Switzerland (SMI)	7,536.5	–0.4	–14.2	–5.5
Turkey (ISE)	44,752.5	+3.3	+14.4	+34.7
Australia (All Ord.)	5,615.3	–1.1	–0.5	+13.1
Hong Kong (Hang Seng)	23,169.6	–1.3	+16.1	+15.7
India (BSE)	16,949.1	–6.6	+22.9	+36.8
Indonesia (JSX)	2,610.8	–1.1	+44.6	+40.4
Malaysia (KLSE)	1,423.2	+0.5	+29.8	+41.4
Pakistan (KSE)	14,115.9	+0.7	+40.6	+36.0
Singapore (STI)	2,949.5	+0.6	+1.1	+9.3
South Korea (KOSPI)	1,631.8	–3.8	+13.8	+11.9
Taiwan (TWI)	7,550.6	–1.6	–3.5	–0.6
Thailand (SET)	829.4	+4.4	+22.0	+34.2
Argentina (MERV)	2,043.4	+0.2	–2.2	–5.1
Brazil (BVSP)	62,590.0	+6.1	+40.7	+72.1
Chile (IGPA)	13,281.4	+3.6	+7.3	+22.3
Colombia (IGBC)	9,166.5	+3.3	–17.9	–3.2
Mexico (IPC)	29,306.8	+4.9	+10.8	+11.6
Venezuela (IBC)	35,104.3	–1.0	–32.8	–54.9
Egypt (Case 30)†	10,128.2	–1.3	+45.2	+50.5
Israel (TA-100)	1,019.6	+1.5	+10.6	+29.2
Saudi Arabia (Tadawul)	9,185.1	–3.2	+15.8	+15.8
South Africa (JSE AS)	28,502.2	+2.2	+14.4	+4.5
Europe (FTSEurofirst 300)	1,334.3	+0.9	–10.1	–0.7
World, dev'd (MSCI)	1,445.5	+1.4	–2.6	–2.6
Emerging markets (MSCI)	1,111.5	+0.6	+21.8	+21.8
World, all (MSCI)	366.1	+1.3	–0.5	–0.5
World bonds (Citigroup)	750.5	–0.6	+14.0	+14.0
EMBI+ (JPMorgan)	433.7	–0.5	+6.5	+6.5
Hedge funds (HFRX)	1,308.2	+0.6	+2.5	+2.5
Volatility, US (VIX)	24.9	29.0	11.6	(levels)
CDSs, Eur (iTRAXX)†	101.5	+36.7	+335.4	+380.9
CDSs, N Am (CDX)†	151.1	+20.3	+352.0	+352.0
Carbon trading (EU ETS) €	19.9	–0.6	+8.9	+20.3

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EFX; HKMA; Markit; Standard Bank

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Chances of becoming vice-president

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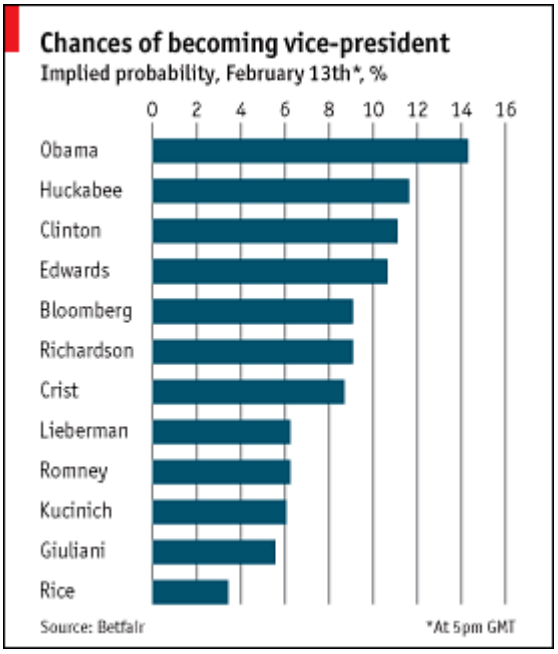
From The Economist print edition



Betfair, an internet betting exchange, is offering punters the opportunity to gamble on the identity of America's next vice-president. Based on the odds listed on Betfair, a rough implied probability can be calculated by dividing a bet into its payoff; for example, Betfair is offering six to one against Barack Obama becoming the president's understudy, so his implied probability is calculated by dividing one by seven. The odds bounce around a lot from one hour to the next, but when our snapshot was taken, the “chalk players” had their money on Mr Obama. That means he was favourite for both the vice-presidency and the presidency. The odds point to Mike Huckabee as the most likely deputy to a Republican president.

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